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**March 30, 2012**

## Discretionary Programs

UBS Managed Portfolio Program  
Portfolio Management Program  
Mutual Fund Discretionary Program

## Separately Managed Accounts Programs

ACCESS<sup>SM</sup>  
Managed Accounts Consulting (MAC)

## Unified Managed Accounts Program

UBS Strategic Wealth Portfolio (SWP)

## Non-Discretionary Advisory Programs

UBS Strategic Advisor  
Personalized Asset Consulting and Evaluation ("PACE")  
PACE Multi Advisor Program  
PACE Select Advisors Trust

**This wrap fee program brochure provides information about the qualifications and business practices of UBS Financial Services Inc. and our wrap fee investment advisory programs that you should consider before becoming a client of any of these programs.**

**If you have any questions about the content of this brochure, please contact us at 888-526-7454. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about UBS Financial Services Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Please note that registration as an investment adviser does not imply a certain level of skill or training.**

This Form ADV Disclosure Brochure applies to all of your advisory accounts at UBS Financial Services Inc., including any advisory accounts you may open in the future. We will not provide another copy of the Form ADV Disclosure Brochure when you establish new advisory accounts unless there are material changes to the document we originally provided to you. Annually we will provide you with a copy of our updated Form ADV Disclosure Brochure or a summary of material changes from the brochure previously provided to you.

**Please retain these documents for future reference as they contain important information if you decide to add services or open new advisory accounts with our Firm.**

Our Client Relationship Agreement, Disclosure booklet and other related documents are available at [ubs.com/accountdisclosures](http://ubs.com/accountdisclosures) or by calling your Financial Advisor. **You may obtain a copy of the current Form ADV Disclosure at any time by contacting your Financial Advisor.**

## Item 2. Material Changes

This section describes the material changes to our wrap-fee Programs Form ADV Disclosure Brochure since the last annual amendment of our Form ADV on March 31, 2011.

### Sweep Feature for Cash Balances in Advisory Accounts

**UBS Deposit Account Sweep Program (EFFECTIVE ON OR ABOUT APRIL 9, 2012):** Starting on or about April 9, 2012, cash in eligible Advisory Accounts will be swept to interest-bearing deposit accounts (Deposit Accounts) at UBS Bank USA (Bank), an FDIC member institution and an affiliate of UBS, through the UBS Deposit Account Sweep Program (Bank Deposit Program).

The Bank Deposit Program sweep feature is available only for certain types of Advisory Accounts. For eligible Accounts, starting on or about April 9, 2012 (the effective date):

- Your new cash will be deposited automatically—or “swept”—into the Deposit Accounts up to a specified limit, or “Cap,” of \$250,000 per account owner for each Account. When you reach the Cap, new cash will then sweep to the money market fund that was the sweep option for your Advisory Account before the effective date. Taxable accounts may change the money market fund used as the secondary sweep option by contacting their Financial Advisor.
- Taxable money market funds will no longer be available as your sweep option for cash amounts below the Cap in taxable advisory accounts.

The changes do not apply to Advisory Accounts with tax-advantaged money market funds as the sweep option, and cash in these Accounts will continue to sweep to that Fund unless you instruct us to change your sweep option.

**See “Cash Balances in your Advisory Accounts” for more details.**

**PACE Program** (See “Non-Discretionary Advisory Programs—PACE”).

- The PACE Program now requires the selection of a rebalancing option. Accounts that do not select an option will be rebalanced on an annual basis.

### New Discretionary Program

- We expect to offer a new Mutual Fund Discretionary Program later this year. For a description of that program, please see “Mutual Fund Discretionary Program”.

**Disciplinary History:** Please see Section 9 of this Brochure for updates to the disciplinary events reported for UBS Financial Services and its management personnel (since May 25, 2011 update).

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## Definitions

### References in this brochure to:

- **"Programs"** means our investment advisory programs.
- **"Agreement"** means the Advisory Relationship Agreement.
- **"SMA Manager"** means your ACCESS, MAC or SWP investment manager as applicable.
- **"Account"** or "account" means the account(s) you have established in the relevant programs.
- **"UBS Portfolio Manager"** means your Portfolio Management Program or Mutual Fund Discretionary Program Financial Advisor or our Portfolio Strategy Group home office investment professionals in the UBS Managed Portfolio Program.
- **"Asset Allocation"** and **"Portfolio Review"** are used interchangeably in this document and refer to the asset allocation/investment strategy you have selected for your program account.
- **"Plan"** means: an individual retirement account (IRA), a retirement plan for self-employed individuals, or an employee benefit plan subject to the Employee Retirement Income Security Act (ERISA) of 1974, as amended.
- **"Program Assets"** means the assets you invest through our Advisory programs.
- **"UBS"** unless otherwise noted, means UBS Financial Services Inc.

## About UBS Financial Services Inc.

UBS Financial Services Inc. ("UBS") is one of the nation's leading securities firms, serving the investment and capital needs of individual, corporate and institutional clients. We are a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange ("NYSE"). Our parent company, UBS AG is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser, and futures commission merchant.

As a registered investment adviser, we complete a Part I of Form ADV, which contains additional information about our business and our affiliates. This information is publicly available through our filings with the U.S. Securities and Exchange Commission (SEC) at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This information is current as of the date of this Brochure and is subject to change in our discretion.

## Conducting Business with UBS: Investment Advisory and Broker Dealer Services

As a wealth management firm providing services to clients in the United States, we are registered with the U.S. Securities and Exchange Commission (SEC) as a broker-dealer and an investment adviser, offering both investment advisory and brokerage services.<sup>1</sup>

Our clients work with their Financial Advisors to determine the services that are most appropriate given their goals and circumstances. Based on the services you request, we can fulfill your wealth management needs in our capacity as an investment adviser, as a broker-dealer, or as both. For example, we offer fee-based financial planning as an advisory service. Once we deliver a financial plan to you, you can decide whether to implement the financial plan via brokerage accounts, advisory programs or a combination, depending on your needs and preferences. Most of our Financial Advisors are qualified and licensed to provide both brokerage as well as advisory services depending on the services a client has requested.

In addition, some of our Financial Advisors hold educational credentials, such as the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation. Holding a professional

designation typically indicates that the Financial Advisor has completed certain courses or continuing education. However, use of a designation does not change UBS' or the Financial Advisor's obligation with respect to the advisory or brokerage products and services that may be offered to you.

**It is important to understand that investment advisory and brokerage services are separate and distinct and each is governed by different laws and separate contracts with you. While there are similarities among the brokerage and advisory services we provide, depending on the capacity in which we act, our contractual relationship and legal duties to you are subject to a number of important differences.**

## Our services as an investment adviser and our relationship with you

We offer a number of investment advisory programs to clients, acting in our capacity as an investment adviser, including fee-based financial planning, discretionary account management, non-discretionary investment advisory programs, and advice on the selection of investment managers, mutual funds, exchange traded funds and other securities offered through our investment advisory programs.

Generally, when we act as your investment adviser, we will enter into a written agreement with you expressly acknowledging our investment advisory relationship with you and describing our obligations to you. At the beginning of our advisory relationship, we will give you our Form ADV brochure(s) for our advisory program(s) which provides detailed information about, among other things, the advisory services we provide, our fees, our personnel, our other business activities and financial industry affiliations and conflicts between our interests and your interests.

## How We Charge for Investment Advisory Services

We may charge for our investment advisory services in any of the following ways:

- A percentage of the amount of assets held in your advisory account
- A flat annual fee
- A combination of asset based fee and commissions
- Periodic fees
- Financial planning services are available for a fee

<sup>1</sup> Examples of our advisory programs and services include our fee-based financial planning services and our ACCESS, Portfolio Management Program, Managed Accounts Consulting, UBS Institutional Consulting, UBS Strategic Advisor, UBS Strategic Wealth Portfolio, UBS Managed Portfolio Program, Mutual Fund Discretionary Program and PACE programs. Examples of our brokerage accounts include our Resource Management Account® and the International Resource Management Account.

Generally, your Financial Advisor will receive a portion of the fees you pay us.

### **Our Fiduciary Responsibilities as an Investment Adviser**

When you participate in one of our investment advisory programs, we are considered to have a fiduciary relationship with you.<sup>2</sup> The fiduciary standards are established under the Investment Advisers Act of 1940 and state laws, where applicable, and include:

- Obligations to disclose to you all material conflicts between our interests and your interests.
- If we or our affiliates receive additional compensation from you or a third-party as a result of our relationship with you, we must disclose that to you.
- We must obtain your informed consent before engaging in transactions with you for our own account or that of an affiliate or another client when we act in an advisory capacity.
- We must treat you and our other advisory clients fairly and equitably and cannot unfairly advantage one client to the disadvantage of another.
- The investment decisions or recommendations we make for you must be suitable and appropriate for you and consistent with your investment objectives and goals and any restrictions you have placed on us.
- We must act in what we reasonably believe to be your best interests and in the event of a conflict of interest, we must place your interests before our own.

Termination of your advisory account or agreement will end our investment advisory fiduciary relationship with you as it pertains to that account or those services and, depending on the terms of your specific investment advisory agreement with us, will cause your account to be converted to, and designated as, a brokerage account only.

### **Our Services as a Broker-Dealer and Our Relationship With You**

As a full-service broker-dealer, our services are not limited to taking customer orders and executing securities transactions. As a broker-dealer, we provide a variety of services relating to investments in securities, including providing investment research, executing trades and providing custody services. We also make recommendations to our brokerage clients about whether to buy, sell or hold securities. We consider these recommendations to be part of our brokerage account services and do not charge a separate fee for this advice. Our recommendations must be suitable for each client,

in light of the client's particular financial circumstances, goals and tolerance for risk.

Our Financial Advisors can assist clients in identifying overall investment needs and goals and creating investment strategies that are designed to pursue those investment goals. The advice and services we provide to our clients with respect to their brokerage accounts is an integral part of our services offered as a broker-dealer.

In our capacity as broker-dealer, we do not make investment decisions for clients or manage their accounts on a discretionary basis. Instead, we will only buy or sell securities for brokerage clients based on specific directions from you.

### **How We Charge for Brokerage Services**

If you choose to establish a brokerage account with us, you may elect to:

- Pay us for our brokerage services each time we execute a transaction for your account in a Resource Management Account (RMA). If you choose to pay on a transaction-by-transaction basis, we can act as either your agent or "broker," or as a "dealer."
- When acting as your agent or broker, we will charge a commission to you each time we buy or sell a security for you.
- When acting as a "dealer," we act as a principal for our own account on the other side of a transaction from you. Using our own inventory, we will buy a security from or sell a security to you, and seek to make a profit on the trade by charging you a "mark up," "mark-down" or "spread" on the price of the security in addition to the commissions you pay on these transactions.

We pay our Financial Advisors a portion of commissions, profits on principal trades, and other charges.

### **Our Responsibilities to You as a Broker-Dealer**

As a broker-dealer we are subject to the following:

- The Securities Exchange Act of 1934
- The Securities Act of 1933
- The rules of the Financial Industry Regulatory Authority (FINRA)
- The rules of the New York Stock Exchange
- State laws, where applicable

These laws and regulatory agencies have established certain standards for broker-dealers which include:

<sup>2</sup> Fiduciary status under the Investment Advisers Act is different from fiduciary status under ERISA or the Internal Revenue Code. While in our investment advisory programs we act as a fiduciary under the Investment Advisers Act, we do not act as a fiduciary under ERISA or the Internal Revenue Code unless we expressly agree to do so in writing.

- As your broker-dealer, we have a duty to deal fairly with you. Consistent with our duty of fairness, we must ensure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions and that the commissions and other fees we charge you are not excessive.
- We must have a reasonable basis for believing that any securities recommendations we make to you are suitable and appropriate for you, given your individual financial circumstances, needs and goals.
- We are permitted to trade with you for our own account or for an affiliate or another client and may earn a profit on those trades. When we engage in these trades, we disclose the capacity in which we acted on your confirmation, though we are not required to communicate this or obtain your consent in advance, or to inform you of the profit earned on the trades.
- **It is important to note that when we act as your broker-dealer, we do not enter into a fiduciary relationship with you. Absent special circumstances, we are not held to the same legal standards that apply when we have a fiduciary relationship with you, as we do when providing investment advisory services.** Our legal obligations to disclose detailed information to you about the nature and scope of our business, personnel, fees, conflicts between our interests and your interests and other matters are more limited than when we have a fiduciary relationship with you.

#### Item 4. Services, Fees and Compensation

##### A. About our Investment Advisory programs

This brochure describes our wrap fee investment Advisory programs ("Programs"). We offer a variety of Advisory services to address different investment needs, including:

Program type	Programs included
Discretionary programs	UBS Managed Portfolio Programs, Portfolio Management Program and Mutual Fund Discretionary Program
Separately managed accounts (SMA) programs	ACCESS and Managed Accounts Consulting
Unified managed accounts program	UBS Strategic Wealth Portfolio
Non-discretionary Advisory programs	PACE and UBS Strategic Advisor Program

We do not hold ourselves out as specializing in a particular type of advisory service or strategy. Instead, our Programs offer a broad variety of strategies, SMA Managers and asset allocations and features.

These programs offer wrap fee Advisory services, which allow you to manage your account in a number of ways:

- You can delegate investment discretion to our Financial Advisors or our Portfolio Strategy Group home office investment professionals
- You can access the services of SMA investment managers
- You can work with your Financial Advisor in those programs over which you retain investment discretion
- You can use any combination of the above

These Programs are, generally, designed for:

- Clients who want to implement a medium to long-term investment plan
- Clients who seek and use the advice and guidance of an investment professional either in their self-directed accounts or by delegating management of their assets to a portfolio manager or SMA Manager
- Investors who prefer the consistency of fee-based pricing

However, these programs may not be appropriate for clients with the following preferences:

- A short-term investment horizon
- A desire to maintain consistently high levels of cash or money market funds in their accounts
- Clients who want to maintain highly concentrated positions that will not be sold regardless of market conditions
- Investors who anticipate regular significant withdrawals from their accounts

While we offer an extensive list of investment options and SMA Managers, the offerings are limited to those approved for sale or recommendation at the firm. We do not offer or recommend every SMA Manager, investment or strategy available in the industry.

**There are important differences among these Programs in terms of services, structure and administration, the depth of research conducted on the managers available in the programs, Program Fees and the compensation that Financial Advisors receive. Please review this brochure carefully as you decide which program is appropriate for your investment needs.**

We offer other Advisory services not described in this brochure. If you would like more information please ask your Financial Advisor for the Form ADV Disclosure Brochure for these programs and services.

- Fee-based financial planning services.
- Financial education program: an employer or other sponsoring entity can contract with UBS to have a UBS Financial Advisor provide one or more of a series of financial education seminars to their employees or members (generally, but not always, at no charge to the employee or member) or to the public for a fee.
- Consulting Services: available to retirement plans, institutions and corporate clients for an asset-based fee, a fixed fee, mutual fund distribution and finder's fees or brokerage commissions, as well as a combination of a consulting fee with a brokerage offset or transaction fee.

## **B. Advisory Programs: Fee Schedules, Minimum Investments and Minimum Annual Fees**

The following programs offer the flexibility to negotiate either a flat-fee or a tiered (break-point) fee schedule:

- ACCESS
- Managed Accounts Consulting
- Portfolio Management Program
- Managed Portfolio Program

With a flat-fee option, the agreed-upon annual fee is a fixed percentage of the assets in the Account; it does not change as the value of your account changes. With break-points, the negotiated fee, also a percentage of the assets, varies based on asset levels and changes as you increase or decrease assets in your account. Specific "break-points" for each asset level are defined in the Application. Clients may request to have two or more eligible Advisory accounts be treated as related accounts to qualify for certain break-point discounts. Please discuss with your Financial Advisor.

If you negotiated a discount to the Program Fee schedule, that discount will apply only to the break-point asset level (i.e., the asset level that qualifies you for reduced fees) indicated in your application. As a result, your Program Fee may change in the future as you increase the assets in your account and trigger the breakpoints listed in your application.

**All rates listed below indicate the maximum annual fees in each Program.**



## Discretionary Programs

Program Name	Ubs Managed Portfolio Program	Portfolio Management Program (Pmp)	Mutua Fund Discretionary Program
<b>Minimum Account Size</b>	<p>The minimum account size required to open a Program varies by strategy:</p> <ul style="list-style-type: none"> <li>– UBS Managed Portfolio of Funds: \$5,000 or \$50,000 in eligible assets (depending on the strategy selected)</li> <li>– UBS Managed Portfolio of Global Selections: \$250,000 in eligible assets</li> <li>– UBS Managed Portfolio Advised by Richard Bernstein Advisors LLC: \$50,000 in eligible assets</li> <li>– UBS Managed Portfolio Selections: \$100,000 in eligible assets</li> <li>– UBS Managed Portfolio of ETFs in the MAC Program: \$50,000 in eligible assets</li> <li>– UBS Managed Portfolio of ESG Investments: \$100,000 in eligible assets.</li> </ul>	<p>\$50,000 in eligible assets</p> <p>All assets: 2.00%*</p> <p>* Applies to Equity, Balanced, or Fixed Income pooled investment strategies</p>	<p>\$5,000 in eligible assets (open-end mutual funds)</p> <p>All assets: 2.00%*</p> <p>Strategies consisting of all Pooled Investment Vehicles. These fees do not include management and administrative fees and expenses of the pooled investment vehicles</p>
<b>Fee Schedule</b>	<p><b>UBS Managed Portfolio of Funds</b> All assets: 2.00%</p> <p><b>UBS Managed Portfolio of Global Selections</b> All assets: 2.50%</p> <p><b>UBS Managed Portfolio Advised by Richard Bernstein</b> All Assets: 2.80%</p> <p><b>UBS Managed Portfolio Selections</b> All assets: 2.50%</p> <p><b>UBS Managed Portfolio of ETFs in the MAC Program:</b> charges a maximum 0.80% as the Investment Management Fee in the MAC Program.</p> <p><b>UBS Managed Portfolio of ESG Investments:</b> All assets 2.00%</p>	<p><b>Equity and Balanced Accounts</b> All assets: 2.80%</p> <p><b>Fixed Income Accounts</b> All assets: 1.25%</p> <p>Strategies consisting of all Pooled Investment Vehicles. These fees do not include management and administrative fees and expenses of the pooled investment vehicles.</p>	
<b>Minimum Annual Fee</b>	No minimum annual fee	No minimum annual fee	No minimum annual fee
<b>Fee Options</b>	Asset-based fee	Asset-based fee	Asset-based fee

## Separately Managed Accounts Programs And Unified Managed Accounts Program

Program Name	ACCESS	Managed Accounts Consulting (MAC)	Strategic Wealth Portfolio (SWP)
<b>Relationship Type</b>	Single contract, sub-advisory program. Client hires UBS-FS and authorizes UBS-FS to hire manager on client's behalf.	Dual contract, consulting program. Client hires UBS- FS as consultant and hires manager (directly) to manage the account.	Advisory product with discretionary and non-discretionary sub-accounts. Separately managed accounts are sub-advised as in ACCESS. Mutual funds, exchange traded funds and alternative strategies are non-discretionary.
<b>Minimum Account Size</b>	\$100,000 Certain fixed income, international and multiple style accounts have minimums from \$175,000 to over \$3,000,000	\$100,000 or the manager's minimum (whichever is greater) We may accept accounts with lower minimum investments for certain specialized strategies on a limited exception basis only.  \$10,000,000 for MAC accounts held at an outside custodian, subject to limited exceptions.	The minimum account opening size: \$375,000. May be higher when selecting certain SMA strategies (for example fixed income and international). Also, the minimum asset size required may be higher because of the target asset allocation and the percentage invested in each strategy.
<b>Fee Schedule</b>	<b>Equity and Balanced Accounts</b> All assets: 2.80%  <b>Fixed Income Accounts</b> All assets: 1.25%	<b>UBS Financial Services Inc. Portion of MAC Fee for Equity and Balanced Accounts</b> All assets: 2.05%  <b>UBS Financial Services Inc. Portion of MAC Fee for Fixed Income Accounts</b> All assets: 0.90%	UBS Financial Services Inc. Annual Consulting Fee: All assets: 2.00% The Strategic Wealth Portfolio Program has a "Blended Program Fee" that includes a UBS Consulting fee which applies to all assets in the Account and additional fees for the services of the SMA Manager(s) you select for the discretionary portion of your SWP Account. Fees for sub-accounts with SMA Managers will vary depending on the strategy and manager selected.
<b>Minimum Annual Fee</b>	No minimum annual fee for accounts opened on or after May 2, 2011.  Accounts opened prior to May 2, 2011 are subject to the following minimum annual fee:  Equity and balanced accounts: \$2,800, or 2.80% of your account value, whichever is less.  Fixed income accounts: the minimum annual fee is \$1,250, or 1.25% of your account value, whichever is less.	No minimum annual fee for accounts opened on after May 2, 2011.  Accounts opened prior to May 2, 2011 are subject to the following minimum annual fee:  Equity and balanced accounts is \$2,050, or 2.05% of your account value, whichever is less.  Fixed income accounts, the minimum annual fee is \$900, or 0.90% of your account value, whichever is less.	No minimum annual fee

Program Name	ACCESS	Managed Accounts Consulting (MAC)	Strategic Wealth Portfolio (SWP)
<b>Manager's Fee</b>	Included in the Program Fee. Please see "Compensation to SMA Managers" below for details.	The SMA Manager's fee is in addition to the Program Fee and is negotiated between the client and the manager. See the MAC Program description for details.	Included in the Blended Program Fee. Please see "Compensation to SMA Managers" below for details.
<b>Fee Options</b>	Asset-based fee	MAC Fee: Asset-based fee MAC Fee Plus Commission: Directed commissions (only offered as an exception)	Asset-based fee

### Non-Discretionary Advisory Programs

Program Name	PACE Select	PACE Multi	UBS Strategic Advisor
<b>Eligible Investments</b>	UBS Mutual Funds (100% mutual funds)	Affiliated and Non-Affiliated Mutual Funds (100% mutual funds)	Mutual funds (affiliated and non-affiliated), exchange traded funds, equities, fixed income, structured products, and certain alternative investments.
<b>Minimum Account Size</b>	\$10,000	\$5,000	\$50,000 in eligible billable assets. If you link to another Strategic Advisor account, only one of the Related Accounts is subject to this minimum requirement. Each other Related Account is subject to a minimum account size of \$10,000 in eligible assets.
<b>Fee Schedule</b>	All assets: 2.00%	All assets: 2.00%	All assets: 2.00%
<b>Minimum Annual Fee</b>	No minimum annual fee	No minimum annual fee	No minimum annual fee
<b>Fee Options</b>	Asset-based fee	Asset-based fee	Asset-based fee

Billing practices vary by product. Please see "Account Requirements and Types of Clients—Billing Practices" for a description.

We reserve the right, in our sole discretion, institute special pricing features, to change account minimums for new accounts, impose higher account minimums for certain strategies or portfolios that may be offered from time to time, to terminate accounts that fall below the minimum account value requirements, or require that additional monies or securities be deposited to bring the account up to the required minimum.

### 1. Your Program Fee; Services Included in Your Program Fee:

Our Programs charge a "wrap fee" at the maximum annual rates listed in the fee schedules listed above. The Program Fee that you pay in the programs described in this brochure covers:

- the investment advice and consulting services of your Financial Advisor
- trading, execution and settlement for trading through UBS
- custody
- performance reporting for accounts custodied at UBS and related account services that we provide to you
- depending on the program that you select, may include portfolio management as well.

Unless you have selected the MAC Commission option in the MAC Program, no separate fees for brokerage commissions will be charged to your Account.

### Your Financial Advisor receives a percentage of the Program Fees you pay to us.

The fees and/or commissions we charge in our Programs are negotiable and may differ from client to client based on a number of factors. These factors include, but are not limited to, the type and size of the account, and the

number and range of supplemental Advisory and client-related services to be provided to the account. Financial Advisors receive less than their standard payout when accounts are priced below certain levels. This creates an incentive for Financial Advisors to price accounts at or above those levels. If a Financial Advisor wishes to discount the program fee below certain levels, he/she may have the opportunity to do so but may earn reduced compensation associated with the discount.

Fees as well as other account requirements may vary as a result of the application of prior policies depending upon when your account was first opened. From time to time, the fees for certain Advisory services described in this brochure may be reduced for our employees, certain family members or employees of our affiliates. We reserve the right to change those fees upon termination of employment with the firm. Other types of fee arrangements—such as a fee plus commission, or a fixed fee arrangement—are available in certain programs. We may enter into special agreements to provide other services involving specific clients, Financial Advisors or any of our branch offices. For more information regarding the above, contact your Financial Advisor.

Program Fees are expressed as an annual rate that is prorated for the quarterly or other billing period and is applied to the asset value of the account. For this purpose, asset value means the total fair market value of the eligible securities in your account, including, where applicable, the value of margin loans and options, dividends and accrued interest.

You may pay more or less in a UBS Financial Services Inc. wrap-fee program than you might otherwise pay if you purchased the services separately. For example, depending on your asset allocation or strategy selection, you may find that the individual components of your strategy or allocation are available to you outside of the Program for more or less than you would pay in the Program. Several factors affect whether your costs are more or less in a wrap fee program, including:

- Size of the portfolio
- Whether we serve as custodian for your account assets
- The types of investments made by the SMA Manager, Portfolio Manager or Financial Advisor;
- Whether such investments carry additional administrative or management fees
- The trading activity in the Account
- The actual costs of the services if purchased separately

You should consider these factors carefully before establishing accounts in the programs.

When you select an investment portfolio managed by UBS, such as Managed Portfolio of ETFs, our firm earns more compensation than it would if you selected a third-party SMA Manager because the fees you pay for investment management are retained by us or one of our affiliates.

Certain SMA Manager strategies are available in several programs at different fee levels. Therefore the Program Fee you pay will vary, depending on the Program you select and the structure of the program (dual, single contract, unified account, discretionary or non-discretionary program). For example:

- The ACCESS and MAC programs offer some of the same SMA Managers. Depending on your asset level and ability to negotiate the investment management fee with the SMA Manager in the dual-contract structure of the MAC program, you may find that the single-manager structure in ACCESS provides a more cost-effective option or vice versa.
- UBS Managed Portfolio of ETFs in the MAC Program: charges a maximum 0.80% as the Investment Management Fee in the MAC Program. That fee may be greater than the fee, which ranges from 0.20% to 0.75%, third-party SMA Managers charge in our SMA programs such as ACCESS or SWP. The Managed Portfolio of ETFs maximum fee may also vary from the fee third-party managers of ETF strategies would charge you directly in the MAC Program for investment management services which may be up to 1.50% or higher.
- Managed Portfolio Program Strategies: Strategies available in our Managed Portfolio Program may also be offered in other Advisory Programs and within other Managed Portfolio Program strategies, in some cases, for a different fee.

We may, in our discretion, and in order to address fiduciary obligations, offer the Programs to trust clients for which our affiliate serves as trustee at substantially discounted rates than those listed.

### C. Fees/Other Charges Not Covered by your Program Fee

You may pay other charges in addition to the wrap fee, some of which may add to the compensation that we receive. Program Fees will not be reduced or offset by these fees. Instead, these additional fees will reduce the overall return of your account. Our Program Fees do not include:

- **SMA Manager Fees in the MAC Program:** Our MAC Program Fee does not include the services of your SMA Managers in that program. Your MAC SMA Manager will charge a separate fee, which you negotiate, for portfolio management services which, when added to UBS' consulting fees, comprise your total "fee." The range of annual fees charged by SMA Managers in MAC for equity and balanced accounts is generally 0.50% to 1.50% or higher of assets under management. For fixed-income accounts, the range of annual fees is generally between 0.25% and 0.75% or higher of assets under management. However, fees charged by SMA Managers can vary significantly, depending on the type of investment services offered. Your account may also be subject to minimum annual fees from the SMA Manager, which may be assessed quarterly.
- **MAC Commission Accounts:** On an exception basis, you may establish a MAC account with us and pay through a commission pricing structure. MAC Commission is a commission account in which we are compensated through negotiated brokerage commissions rather than asset-based consulting fees. The SMA Manager will also charge a separate fee, negotiated by you, for portfolio management services. **Your selection of the commission option may result in us earning more than the asset-based fee option. This may result in a financial incentive for your Financial Advisor to (i) advocate the use of the MAC Commission pricing option over the MAC Fee option to pay for services, due to the potential for increased compensation in the form of brokerage commissions and (ii) recommend managers who will direct client trades to us.** Please see *"Participation or Interest in Client Transactions—Directed Brokerage Compensation from Managers Available in our Advisory Programs."*
- commission charges for transactions for your account that your SMA Manager or we, at your direction, may effect through other broker-dealers. Your SMA

Manager has the option to trade through us or with other financial institutions, in accordance with best execution obligations. **If your SMA Manager will not be executing transactions with UBS, our SMA programs may not be an appropriate option as you will be incurring redundant costs.** You should direct your inquiries regarding these costs to your Financial Advisor;

- custody fees imposed by other financial institutions if you choose to custody your assets at other financial institutions;
- precious metals custody fees imposed by affiliates, or other financial institutions.
- mark-ups/mark-downs on principal transactions with us or other broker-dealers;
- internal trust fees;
- costs relating to trading in foreign securities (other than commissions otherwise payable to us);
- internal administrative, management, redemption (see below) and performance fees that may be imposed by collective investment vehicles such as open-end and closed-end mutual funds, UITs, hedge funds and other alternative investments, exchange-traded funds or real estate investment trusts;
- subject to limited exceptions, redemption fees charged by mutual funds for active trading in your Accounts (see *"Mutual Fund Redemption Fees for Active Trading"* below);
- and other specialized charges, such as transfer taxes, and fees we charge to customers to off-set fees we pay to exchanges and/or regulatory agencies on certain transactions.

Either UBS Financial Services or UBS Credit Corp. will also charge interest on any outstanding loan balances (including margin loans) to clients who borrow money from us or UBS Credit Corp. Clients also may be charged additional fees for specific account services, such as:

- ACAT transfers
- Wire transfer charges
- Annual and termination fees for retirement accounts
- Annual and termination fees for RMAs or Business Services Accounts (BSAs)

- **Mutual Fund Redemption Fees for Active Trading.** The mutual funds you hold in your Accounts may charge redemption fees if shares are sold within a certain period of time after they are purchased, also known as active trading. These fees may also apply to the redemption portion of an exchange transaction if shares are exchanged among funds (whether through direct exchanges or through sales and new purchases) in the same family of funds more frequently than is permitted by each fund's prospectus. The amount charged as a redemption fee, the length of time you must hold your shares to avoid a redemption fee and the number and frequency of exchanges among funds you may make without paying a redemption fee, varies from one mutual fund to another. This information is included in each Fund's prospectus. If you have questions about whether a redemption fee will apply to a transaction you wish to make, please ask your Financial Advisor for a prospectus for the applicable mutual fund. **If charged, redemption fees will be in addition to the Program Fee and will be your responsibility.**

For mutual fund assets in our Mutual Fund Discretionary Program, Managed Portfolio of Funds, Managed Portfolio of ESG Investments, UBS Strategic Wealth Portfolio and PACE programs, you will not be charged redemption fees resulting solely from automatic transactions effected for your allocation, including periodic automatic account rebalancing, periodic automatic withdrawals from your account or withdrawals to pay your Program Fee, if you have selected these features. If due to system limitations or errors, your account is charged redemption fees as a result of periodic automatic account rebalancing, periodic automatic withdrawals from your account or withdrawals to pay your Program Fee, we will credit your Account for the amount of those fees. **Redemption fees incurred for any other reason and as a result of your trading instructions will be your responsibility.**

## **D. Compensation to Financial Advisors Who Recommend Advisory Programs**

In general, we pay our Financial Advisors a percentage of the commissions and fees (called a payout or grid rate), that each Financial Advisor generates from the clients he or she serves, minus certain adjustments that are requested by our Financial Advisors, according to an established schedule.

**The percentage of firm revenues credited to Financial Advisors in asset-based programs is higher than the percentage of firm revenues credited on most other products and services, including the compensation they would receive if you paid separately for advice, brokerage and other services. The differences in compensation create an incentive for Financial Advisors to recommend products for which they receive higher compensation.**

For transaction-based accounts, which hold products such as stocks, bonds, options and mutual funds, the payout rate ranges from 20% to 45% of the commissions or sales charges credited to the Financial Advisor by the Firm. Generally, for stock and option transactions, the payout is adjusted downward to account for a \$12 per transaction fee. For asset-based fee programs, the payout ranges from 20% to 48% of the fees, commissions or sales charges credited to the Financial Advisor by the Firm.

In general, Financial Advisors earn more for products sold in initial offerings than for those purchased and sold in secondary offerings.

The compensation structure may create financial incentives for Financial Advisors to encourage clients to purchase multiple products and services, or to choose a method of payment for products and services that generate compensation in excess of that for other products.

We may reduce or terminate the above payouts to Financial Advisors in connection with accounts they service that do not meet certain prescribed asset levels on a household basis.

Under certain circumstances (e.g., acquisitions and recruitment), some Financial Advisors or producing Branch Office Managers may be compensated differently. Financial Advisors also receive certain awards based on their production amount, business mix and net new assets. We reserve the right, at our discretion and without prior notice, to change the methods by which we compensate our Financial Advisors.

## **Compensation to Financial Advisors and UBS Portfolio Managers in our Discretionary Programs.**

Financial Advisors receive a portion of the Program Fee you pay to us. The allocation they receive varies depending on the Program. For example, in the Portfolio Management Program and the Mutual Fund Discretionary

Program, the entire Program Fee you pay is allocated to the branch office and it is used as the basis to calculate the percentage of the Program Fee that is paid to your Financial Advisor in his/her role as Portfolio Manager in the PMP or the Mutual Fund Discretionary program.

Portfolio Managers in the UBS Managed Portfolio Program do not receive a portion of the Program Fee. The Program fee is allocated to the branch office. The Program Fee less the administrative and management fee, (ranging from 0.10% to 0.80% based on the strategy you select) is used as the basis to calculate the percentage of the Program Fee that is paid to your Financial Advisor.

**The percentage payable to Financial Advisors acting as Portfolio Managers in the Program is based on their total production level at UBS. The percentage paid to Financial Advisors in PMP and Mutual Fund Discretionary is higher than traditional commission-based brokerage business and is higher than the percentage paid to Financial Advisors who recommend third party money managers. As a result, Financial Advisors who manage assets on a discretionary basis may have an incentive to recommend their services in those Discretionary Programs over those of third party money managers in our other investment Advisory programs or over traditional commission-based brokerage services. From time to time, Financial Advisors outside who do not participate in our Discretionary Programs may refer their clients to Financial Advisors acting as Portfolio Managers in PMP and the Mutual Fund Discretionary Program. In those instances, the FA Portfolio Manager shares a portion of his/her fee with the referring Financial Advisor.**

**Compensation to SMA Managers in the ACCESS and SWP Programs.** We pay a portion of the Program Fee to your SMA Manager as compensation for their services. The amount of the Program Fee paid to each SMA Manager is a function of that SMA Manager's investment style and the fee we negotiated with the SMA Manager. The range of annual fees paid to SMA Managers for equity and balanced accounts is generally 0.25% to 0.75% of assets under management. The range of annual fees paid to SMA Managers for fixed income accounts is generally 0.10% to 0.60% of assets under management.

The compensation payable to SMA Managers, your Financial Advisor and UBS is higher for equity and balanced strategies than it is for fixed income strategies.

## **E. Description of Our Discretionary Programs: UBS Managed Portfolio Program, Portfolio Management Program (PMP) and Mutual Fund Discretionary Program**

The Discretionary Programs described in this brochure offer you the portfolio management services of UBS Financial Advisors (PMP and Mutual Fund Discretionary Program), or our home office investment professionals (UBS Managed Portfolio Program).

By selecting our Discretionary Programs, you authorize UBS to act as your investment adviser and give UBS the power to execute transactions (i.e., buy, sell or otherwise trade securities or other investments) for your Program account without consulting you. You also authorize UBS to take any actions necessary to open and maintain your account or to complete and pay for transactions for your account and if we deem appropriate, to delegate the selection of all or a portion of the securities for your Account to a sub-advisor, model provider or overlay manager for inclusion in the portfolio. You also give UBS the sole authority to manage your account and make all investment decisions for your account without discussing these transactions with you. Your UBS Portfolio Manager will generally be limited to investing in those securities classified as eligible for the program you selected.

See *"Account Requirements and Types of Clients—Eligible and Ineligible Assets"* for a description of our practices, and consult your Financial Advisor for the specific details regarding the eligibility of specific assets and securities to be included in your Program.

UBS Portfolio Managers will have primary responsibility for the day-to-day management of accounts in the UBS Managed Portfolio Program including, where applicable, the selection of tax lots for redemption or liquidation in your account. Your PMP and Mutual Fund Discretionary application will include the name of the Financial Advisor(s) who will be acting as your Portfolio Manager in those Programs or the name of their group (although only a PMP/Mutual Fund Discretionary Financial Advisor may exercise discretion over your account). He/she will have primary responsibility for the day-to-day management of your account. For PMP/Mutual Fund Discretionary Program accounts opened after you have established your first Advisory account, we will confirm in writing your UBS Portfolio Managers. Primary responsibility for the supervision of the PMP/Mutual Fund Discretionary program accounts lies with the Financial Advisor's Branch Office Manager.



## **Portfolio Manager Termination from the Programs.**

We retain the authority to remove any UBS Portfolio Manager or model portfolio or strategy from the Programs at any time and to transfer day-to-day management responsibility of your account to another UBS Portfolio Manager, or Branch Office Manager in certain PMP situations, at any time without first notifying you or obtaining your consent.

Financial Advisors who participate in the PMP and Mutual Fund Discretionary Program may also provide services to you outside of the Program in their capacity as broker-dealer representatives. As a result, you may have other accounts at UBS for which your PMP/Mutual Fund Discretionary Program Portfolio Manager does not provide discretionary Advisory services. Please see *"Conducting Business with UBS: Investment Advisory and Broker-Dealer Services"* for a description of the material distinctions between our Advisory and broker-dealer services and our obligations.

### **1. UBS Managed Portfolio Program**

**Strategies and Models.** The UBS Managed Portfolio Program offers a variety of investment strategies and models that are managed by our home office investment professionals on a discretionary basis.

**Rebalancing.** The Program employs both a strategic and tactical asset allocation. Program assets are evaluated on a regular basis. We generally employ a regular rebalancing process that reviews:

- Market actions
- Your contributions
- Any withdrawal requests
- Template or strategy changes that have been directed by the Portfolio Manager

The Program does not allow you to direct the rebalancing frequency or methodology or opt out of rebalancing for your Account.

### **UBS Managed Portfolio of Funds; Automatic Services/Redemptions**

For assets in the UBS Managed Portfolio of Funds, you may instruct UBS to make cash available to you by redeeming portfolio shares in accordance with your investment strategy in minimum amounts of \$200 per withdrawal. All purchases and redemptions for your Account will be made pro-rata according to the Investment strategy you selected.

You have the following options for when to make automatic redemptions:

- The 15th day of each month (or the prior business day, if the 15th is not a business day); or
- The last business day of each month
- The last business day of each calendar quarter

When making redemptions from your account, we first consider your investment strategy and redeem those investments where your account is overweighted. We then redeem whatever portion remains based on your investment strategy. Generally, redemptions will be processed two business days before the day you specified or earlier to ensure that cash will be available in your Account on that day. Redemption proceeds will be deposited in your Account and are not automatically forwarded to you.

If your redemptions reduce your Program assets below certain thresholds, you may be required to restore your account assets to a minimum level within 30 days or in certain circumstances, may be required to end your participation in the Program:

In the event you do not restore your account assets within 30 days, UBS may end your participation in the Program or impose restrictions on withdrawals.

Managed Portfolio Program Strategies: Strategies available in our Managed Portfolio Program may also be offered in other Advisory Programs and within other Managed Portfolio Program strategies, in some cases, for a different fee. For example, Global Selections strategies in the Managed Portfolio Program have two principal components: (i) an allocation to equity securities; and (ii) an allocation to ETFs for international and fixed income exposure. The equity allocation of the Global Selections portfolios is derived from existing equity models which are available in various Advisory Programs on a discretionary and a non-discretionary basis. Those models continue to be available in other programs, and are accessible to you, in some cases for a lower wrap fee than is available through Global Selections. As a result, Financial Advisors may have an incentive to recommend the portfolios and strategies in programs where they receive higher compensation. Your costs of investing and the overall impact of those costs on the performance of the model portfolios may vary substantially depending on your program selection.

### **2. Portfolio Management Program (PMP)**

**Strategies and Models.** The Portfolio Management Program offers a variety of investment strategies and



models managed by a group of trained Financial Advisors who manage client assets on a discretionary basis.

### **Concentrated Strategies**

Concentrated strategies are available in PMP through Portfolio Managers who have been pre-approved. Please review these descriptions carefully and contact your Portfolio Manager with any questions.

With our approval, you may authorize your Portfolio Manager to implement a concentrated strategy—focusing heavily on stocks in certain companies, sectors or geographic regions.

This type of concentrated strategy is more volatile and presents greater risk of loss, especially over the short term. The more concentrated your portfolio, the higher your risk exposure will be. These portfolios may not be diversified, may hold stocks representing only one or a limited number of economic sectors, or only invested in international securities, may include only a limited number of companies in certain sectors and may invest in new or emerging businesses or securities of foreign companies that present risks not typically associated with U.S. equity investments. Because a concentrated portfolio may hold a limited number of securities, movements in stock price could have a greater impact on the value of the portfolio than would occur if the portfolio held more securities. These portfolios may not be appropriate for investors who are not willing to accept a much greater risk of loss and volatility of investment returns than the general stock market (as measured by the S&P 500 Index) and may not be an appropriate investment for a significant portion of a client's investable assets. We may impose special suitability requirements with respect to these portfolios.

### **3. Mutual Fund Discretionary Program**

**Strategies and Models.** The UBS Mutual Fund Discretionary Program offers a variety of mutual fund asset allocation strategies and models managed by a group of trained Financial Advisors who manage client assets on a discretionary basis.

**Asset Allocation.** Your Financial Advisor will review the results of your Account Questionnaire with you and provide you with an asset allocation for your account. The proposal is based on the information you provided to us and discussions with you regarding an appropriate allocation (Target Allocation) of your Program Assets. The Target Allocation represents a long-term investment strategy that seeks to balance your investment objectives

with your risk tolerance. The allocation you select for your Target Allocation is intended to be the basis for the initial investment of your Program Assets, and may change from time to time.

**Rebalancing.** Your program assets will be reviewed for rebalancing back to the target allocation at least once every thirteen months, or more often at your request. Additionally, your Mutual Fund Discretionary Financial Advisor may elect to rebalance the portfolio based on his or her views on the markets, asset classes, and your individual holdings.

- Market actions
- Your contributions
- Any withdrawal requests

### **Automatic Services/Redemptions**

You may instruct UBS to make cash available to you by redeeming portfolio shares in accordance with your investment strategy in minimum amounts of \$250 per withdrawal. All automated purchases for your Account will be made pro-rata according to your current Investment strategy.

You have the following options for when to make automatic redemptions:

- The 15th day of each month (or the prior business day, if the 15th is not a business day); or
- The last business day of each month
- The last business day of each calendar quarter

When making redemptions from your account, we first consider your investment strategy and redeem those investments where your account is overweighted. We then redeem whatever portion remains based on your investment strategy. Generally, redemptions will be processed two business days before the day you specified or earlier to ensure that cash will be available in your Account on that day. Redemption proceeds will be deposited in your Account and are not automatically forwarded to you.

If your redemptions reduce your Program assets below certain thresholds, you may be required to restore your account assets to a minimum level within 30 days or in certain circumstances, may be required to end your participation in the Program:

In the event you do not restore your account assets within 30 days, UBS may end your participation in the Program or impose restrictions on withdrawals.

## F. Separately Managed Accounts Programs and Unified Managed Account Program

### 1. ACCESS (single contract)

ACCESS offers you the portfolio management services of a select, pre-screened group of SMA Managers. ACCESS is a sub-advisory program in which you hire UBS to assist you in the process of SMA Manager selection and authorize us to hire the manager on your behalf. ACCESS services also include custody at UBS, trading and execution through UBS, and performance reporting.

### 2. Managed Accounts Consulting (MAC) (dual contract)

Managed Accounts Consulting (MAC) is a consulting program that allows you to select an SMA Manager and receive performance reporting on the eligible assets in your MAC account. MAC and ACCESS are different in some very important ways. In particular, in the ACCESS program, you delegate discretion to us and direct us to hire a sub-advisor to manage your assets or, implement the selected strategies through model portfolio providers or overlay managers, subject to your approval. However, in the MAC program, your relationship and your investment agreement are directly with your SMA Manager. UBS will act as your consultant, but you delegate discretionary authority over your accounts directly to your SMA Manager in a separate agreement with them.

**MAC Manager Research.** We provide different levels of SMA Manager due diligence in our MAC program. The level of due diligence we undertake varies depending on whether the manager is in our MAC eligible or our researched list and approved for use in the UBS programs. Please see *“Portfolio Manager Selection and Evaluation—Selecting an SMA Manager; Our Investment Manager Evaluation Process.”*

**MAC SMA Manager Fee:** In the MAC Program, you are responsible for negotiating your investment management agreement and the SMA Manager fees directly with the manager. You should consider that based on the combination of our fees and your SMA Manager’s fees, the overall fee for your MAC account may exceed 3% of the account value. Therefore, it is important that you understand that the services we offer through MAC may be available to you on a more cost-efficient basis in other UBS programs.

### Asset Allocation Programs For Non-Discretionary Accounts

We will provide you with an asset allocation proposal for accounts you want to open in our PACE, Strategic

Advisor, Strategic Wealth Portfolio and Mutual Fund Discretionary programs. Your Financial Advisor will review the results of your Account Questionnaire with you and assist you in developing an asset allocation for your account. The proposal is based on the information you provided to us and discussions with you regarding an appropriate allocation (Target Allocation) of your Program Assets. The Target Allocation represents a long-term investment strategy that seeks to balance your investment objectives with your risk tolerance.

You may accept the Target Allocation for the Program Assets in your Account, or you may change it to include different asset categories or different allocations to one or more asset classes. You may consult with your Financial Advisor about these choices. The allocation you select for your Target Allocation is intended to be the basis for the initial investment of your Program Assets, and may change from time to time as long as it is within your stated risk parameters. Your Program Fees will be assessed regardless of whether or not you follow our recommended allocation.

### 3. UBS Strategic Wealth Portfolio Program (SWP)

In SWP, your assets will be held in one account, but divided within that account into investment sub-accounts. For example, your assets may be divided among SMA sub-accounts, mutual fund sub-accounts and ETF sub-accounts—based on how you have decided to allocate your assets. The sub-accounts offer different levels of discretion, features, and services as described below.

**Your Asset Allocation for SWP.** Depending on your asset allocation, your account will be invested in all or a combination of investment products—including equities or fixed-income – in SMAs, mutual funds, exchange traded funds and other securities available through the program. After you select an allocation, you will receive a personalized asset allocation proposal. For more information, please see *“Methods of Analysis, Investment Strategies and Risk of Loss—Our Asset Allocations.”*

Due to the non-discretionary nature of your SWP account, it is your responsibility to determine whether and how to implement the target asset allocation/investment strategy, and to ensure that your asset allocation continues to be consistent with your goals over time.

### Investment Selections for Your SWP Asset

**Allocation.** The SWP Program requires that at least one sub-account be a separately managed account. Therefore, you must select at least one SMA Manager (who may or may not be affiliated with us) from a group

of SMA Managers recommended by us. We may restrict affiliated managers to taxable accounts only. Currently, you may have a maximum of 20 sub-accounts within your SWP account, which may consist of SMA strategies and other investments available in the program. Currently, each sub-account must have a minimum Target Allocation of 2%. The sub-accounts are managed on an individual basis by the selected SMA Manager(s) or by you if they are non-discretionary. SWP does not offer overlay management services.

The rebalancing feature in the SWP Program will assist you in maintaining your account in line with your target asset allocation. However, deviations from the risk tolerance may still occur for a variety of reasons, for example market movement, or for accounts that do not meet the rebalancing thresholds. You are responsible for addressing those inconsistencies between your asset allocation and your risk tolerance.

### **Management of Your Account; Discretionary Authority of Separately Managed Assets.**

The SMA Managers will manage the sub-accounts of your SWP account (i.e., the Separately Managed Portion) on a discretionary basis and are responsible for rebalancing the SMA sub-account they manage. SMA Managers will typically direct purchase and sale transactions to UBS for execution. You retain discretion and trading authority over assets not managed by your SMA Manager(s).

Your SMA Managers will give us instructions to execute transactions for the separately managed portion of your account. Neither UBS nor your Financial Advisor will have discretionary authority over the separately managed portion of your account, nor will we solicit any orders to buy or sell securities for this portion of your account.

**Non-Discretionary Services by UBS Financial Services Inc.** You may choose to include mutual funds, or ETFs and/or non-daily traded alternative investment funds ("Non-Discretionary Assets") in your SWP account. The Advisory services we provide for those assets and sub-accounts are non-discretionary—meaning that you have sole discretion as to the purchase and sale of those assets. Neither UBS, nor your Financial Advisor will have any discretion over the investment of your Non-Discretionary assets. You may not impose investment restrictions on these non-discretionary assets.

- All purchases and redemptions of Non-Discretionary Assets will be made proportionally based on the investment strategy you selected.
- Investments will be subject to maintaining the minimum cash level required for billing and other liquidity needs, and to meet the minimum trade requirements (currently \$500).
- The initial cash level will be approximately 1% of the asset value of the Non-Discretionary Asset sub-account and can fluctuate between 0.5% and 1.5%. If the cash level is outside of this range, the sub-account will be rebalanced to a cash level of approximately 1%, however if the trade dollar amount required is \$500 or less no trades will be executed. The per-share value of certain investments can cause the cash level to exceed 1.5% of the asset value of the Non-Discretionary Asset sub-account. In the event the cash level does increase, it will be maintained at this higher percentage.

All account changes, including transactions in Non-Discretionary Assets, are subject to a systematic administrative review to ensure consistency with your Target Allocation. We will also ensure that any required paperwork is complete. As a result, transactions are not executed until after the administrative review is completed, and it may take several days for your allocation changes to be effected in your account. Accounts with non-daily traded alternative funds require additional days to reallocate. Because prices fluctuate during the trading day, the prices you receive at the time the trades are executed may be better or worse than the prices at the time you authorized the changes to your account.

**Rebalancing and Reallocation of your SWP Asset Allocation.** Your Account will be automatically reviewed for rebalancing, on an annual or semi-annual basis, to your Target Allocation subject to our minimum trade requirement (currently \$500). Rebalancing will occur if the current allocation of a sub-account deviates from the Target Allocation of that sub-account by more than 5%. Accounts that are taxable have the option of selecting annual rebalancing when there is a deviation of more than 10% from the Target Allocation in any sub-account. For example, in an account that rebalances annually with a +/- 5% deviation, a sub-account with a 30% target allocation would trigger a rebalance if its value reached 25% or 35% of the account value.

Accounts are rebalanced as follows:

#### Annually

- On or about on the last business day of the calendar quarter in which your SWP Account was opened; (for example, if you opened your account on April 5, 2010, your account will be rebalanced on June 30, 2011, assuming it's a business day) or
- For Accounts opened October thru December, rebalancing will take place on or about the last business day of October instead of the last day of the anniversary of the account opening.

#### Semi-annually

- on or about the sixth month anniversary of your account opening.

Your SMA Manager(s) are responsible for the separately managed portion of your SWP Account, while UBS will rebalance your non-discretionary assets. Your accounts will be rebalanced by selling investments in the overweighted sub-accounts and purchasing a corresponding dollar amount of investments in the underweighted sub-accounts.

Rebalancing is completed as promptly as possible. In the event that we are unable to initiate rebalancing as described above due to reasons beyond our control, we will initiate rebalancing as soon as practicable. Market conditions, illiquid securities, securities with limited redemption schedules, the availability of funds and orderly purchase and redemption procedures may cause a delay in the processing and/or completion of the rebalancing. We may adjust the date on which reviews and rebalancing are done if necessary to ensure accurate processing of the review or rebalancing.

Rebalancing will not occur if the account:

- has a pending/unprocessed trade
- has a margin debit
- holds shares of a fund that has been re-categorized to a different asset category, or
- where the program account's value is below the minimum funding required for the target weight of the investment strategy you selected.

However, reallocation/rebalancing will occur for an account that is below the minimum funding required so long as the reallocation rebalancing will not further reduce the asset levels of those sub-accounts.

In addition to the automatic rebalancing, you have the option of reallocating your program account, which may require additional paperwork.

**Important Information Applicable to Alternative Investments:** If you hold a non-daily traded alternative investment fund ("Alternative Fund") as part of your Target Allocation:

- an open-end Alternative Investment mutual fund ("AI mutual fund") must accompany that selection.
- Non-daily traded alternative investments require that you meet certain net worth and minimum initial and subsequent investment requirements. If you are unable to meet the net worth requirements, the additional investments to the alternative strategy sub-account will be contributed to the AI mutual fund you selected.
- Generally, the minimum initial investment for Alternative Investments is \$50,000, and \$25,000 for subsequent investments, including those made through the rebalancing process.
- If at the time of implementing or rebalancing to your Target Asset Allocation, the percentage allocation to the Alternative Fund does not meet the minimum investment amount, you direct UBS to increase the Alternative Fund allocation by no more than \$5,000, with a corresponding dollar reduction to the AI mutual fund you selected, in order to meet the Alternative Investment minimum. If the minimum investment amount still cannot be reached with this adjustment, the entire amount will be allocated to the AI mutual fund you selected.
- Alternative Funds offered through SWP typically have only periodic (e.g., semi-annual) liquidity for redemptions. Rebalancing transactions and any other withdrawals from the non-daily traded investment sub-account must coincide with a redemption period for the Alternative Fund or, alternatively, the withdrawal will be made (if possible) from the AI mutual fund sub-account and from other sub-accounts if necessary.
- Rebalancing: Your SWP Account will be evaluated for rebalancing annually to coincide with the redemption period for alternative investments, so long as the SWP Account has been open for at least one calendar quarter. As part of the annual rebalancing process, we will seek to rebalance your non-daily traded investments to your original alternative investment asset allocation.

#### **Program Structure/Hiring the SMA Managers:**

ACCESS and SWP are "sub-advised" programs. That means you enter into an investment Advisory agreement with us and we, in turn, hire the SMA Manager(s) on

your behalf. Once we accept your Account, we provide the SMA Manager in ACCESS and SWP with your responses to the completed profile questionnaire prior to the manager accepting the account.

The MAC program allows you to enter into two separate agreements, one with UBS for consulting services and one directly with your SMA Manager for investment management services. You are responsible for negotiating the terms, fees and conditions of your agreement with your MAC SMA Manager.

**Management of Your SMA Account.** For the SMA Programs described in this brochure, your SMA Manager has the sole authority to manage your account (or the portion they manage in SWP) and will make all investment decisions for your account without discussing these transactions with you or us. Your SMA Manager will generally be limited to investing in those securities classified as eligible for the program you selected. Please see *"Account Requirements and Types of Clients—Eligible and Ineligible Assets"* for a description of our practices and consult your Financial Advisor for the specific details regarding asset/security eligibility in your program.

We will execute transactions in your program accounts based on the instructions we receive from your SMA Manager. In addition, with the exception of UBS and UBS-affiliated strategies, in which we act as your Portfolio Manager, neither UBS nor your Financial Advisor will have discretionary authority, nor will we solicit your SMA Managers to buy or sell securities for your accounts.

We are not responsible for:

- Your choice of SMA Manager;
- Their day-to-day investment decisions (including their selection of tax lots for sale or redemption)
- Their performance
- The SMA Manager's compliance with applicable laws, rules or regulations
- The SMA Manager's compliance with best execution obligations
- Other matters within the SMA Manager's control, including implementation of your rebalancing election where the manager has assumed the responsibility to manage your account

We reserve the right to refuse to execute any transaction in our program accounts if we reasonably believe that it would violate any applicable law or rule—including the rules of any regulatory agency or self-regulatory organization. We may also refuse to execute any transaction that would be inconsistent with any of our policies and procedures.

## G. Non-Discretionary Advisory Programs

Depending on your Program selection, your account will be invested in the following manner:

- PACE: all mutual funds
- Strategic Advisor: A combination of equities, open- and closed-end mutual funds, ETFs, fixed-income securities, approved unit investment trusts (UITs), options, certain alternative investments, structured products and other securities available through the Strategic Advisor program.

Due to the non-discretionary nature of the Programs, it is your responsibility to determine whether and how to implement the target asset allocation/investment strategy and to ensure that your asset allocation continues to be consistent with your goals over time. Your asset allocation reflects only your assets invested in your Program Account.

You may deviate from your target asset allocation only by a pre-determined level based on your risk tolerance. We will notify you if your allocation shifts and is more aggressive than those limits and if those inconsistencies continue for a period of time. You are responsible for addressing any inconsistencies. For Strategic Advisor accounts, if you do not take action to update the account profile or modify your asset allocation, the account may be terminated.

The rebalancing feature in the PACE Program will assist you in maintaining your account in line with your target asset allocation. However, deviations from the risk tolerance may still occur for a variety of reasons, for example market movement, or for accounts that do not meet the rebalancing thresholds. You are responsible for addressing those inconsistencies between your asset allocation and your risk tolerance. .

The recommendations made in your asset allocation proposal and your Portfolio Strategy Review relate only to your Program accounts, and do not constitute advice regarding other accounts, whether held at UBS or elsewhere. Neither UBS nor your Financial Advisor will provide advice on accounts held at other firms.

As part of the services in Strategic Advisor, your Financial Advisor will perform an annual Portfolio Strategy Review of your allocation and investment strategy. The review will be performed for the purpose of:

- Analyzing your asset allocation relative to your investment strategy

- Determining which asset class or classes you may seek advice on over the next year
- Incorporating any changes in your objectives, risk tolerance and financial condition
- Updating your target asset allocation, if necessary

### **Transactions for Your Strategic Advisor Account and PACE Investments.**

We will execute transactions for your Strategic Advisor account and PACE investments based solely on your instructions; and neither **UBS nor your Financial Advisor will have any discretion over the investment of your Program assets in the PACE and Strategic Advisor accounts.**

**Unsolicited Transactions.** You may execute security transactions that we have recommended to you (solicited transactions) as well as transactions you execute without consultation with, or recommendation from, us (unsolicited transactions). These unsolicited transactions are solely your responsibility and neither UBS nor your Financial Advisor will act as your investment adviser with respect to those transactions.

The advice and guidance of your Financial Advisor is a key service of the Programs. A pattern of unsolicited trading may indicate that the Program you selected is no longer appropriate for you as you are not leveraging the advice of your Financial Advisor. This may result in the revocation of your online trading access (for Strategic Advisor Accounts) and/or termination of your Account from the Program.

After you have completed an unsolicited transaction and have acquired a security on your own and without our advice, for so long as you hold that position in your Program Account, we will take that asset into consideration:

- as part of your overall account assets,
- when we give you periodic asset allocation advice,
- when we value your account holdings,
- when we provide you with analyses and reports on your account's performance, and
- we may also make recommendations that you consider selling the asset, if and when we deem it appropriate.

As a result, we will include any security you acquire in an unsolicited transaction as part of your account assets in calculating your Advisory fee, going forward, if you continue to hold the asset in your account on the date we next calculate your Program Fee.

**Dividends in PACE Accounts:** If you invest in PACE, the dividends you receive from your mutual fund investments will be automatically reinvested into the same Fund, unless you instruct us otherwise

### **1. UBS Strategic Advisor Program Eligible Assets and Billable Assets in Strategic Advisor**

The Section *"Account Requirements Eligible and Ineligible Assets"* describes our general policies regarding eligible assets in our Advisory programs. Strategic Advisor provides a greater level of flexibility than other Advisory programs as it pertains to eligible assets—i.e., those assets held in your account that are subject to our advice.

Specifically, the program permits you to hold, but not to purchase, certain assets deemed ineligible in other programs such as the following:

- B class and C shares class mutual funds
- Open-end mutual funds not approved for the Program
- UITs not approved for the Program
- ETFs and closed-end funds not approved for the program
- Alternative investments not approved for the Program, including hedge funds, hedge fund of funds, private equity, real estate funds, managed futures, private placements and restricted stock

While these assets may be held in Program Accounts, and therefore subject to our ongoing advice, they are excluded from the calculations of your Program Fees due to the additional compensation that we receive in connection with those investments.

Non-billable assets will not be included when determining the minimum account opening requirement, but they will be included in the performance reports and Portfolio Strategy review for your Strategic Advisor account.

### **Principal Transactions in Your Strategic Advisor Account.**

Most of our Advisory programs do not offer the ability to conduct principal trades. However, you have access to principal transactions for certain limited securities in the Strategic Advisor program.

When you establish a Strategic Advisor Account we will ask if you would like to permit the execution of principal trades in your Program Accounts. This is not a condition to you opening or maintaining a Strategic Advisor Account. We will apply your election to that Strategic Advisor Account and to future Strategic Advisor



Accounts you establish under your Advisory Relationship Agreement, unless you provide different instructions for specific accounts.

In order to comply with principal trade restrictions, orders for most of our Advisory programs are executed on an agency basis. This means that you cannot purchase syndicate offerings, including initial public offerings (IPOs), UBS AG or UBS Affiliates structured products, auction rate preferred securities or other securities for which we or our affiliates act as underwriter. Additionally, you may not purchase securities from UBS's inventory, nor may UBS make a bid to purchase securities from you in most of our Advisory programs. However, Strategic Advisor offers clients the ability to have certain security transactions in the account executed on a principal basis. Such securities include:

- Non-convertible investment grade debt including US Treasury Bills
- Notes and bonds bought at auction
- U.S. government agency bonds
- Municipal bonds bought out of inventory
- Corporate bonds bought out of inventory
- Certificates of deposit (CDs) and auction rate securities

In a principal transaction, UBS or an affiliate, acting for its own account, buys a security from or sells a security to you. In Strategic Advisor, we may (as your adviser, when we have given you advice regarding a trade) engage in principal transactions under the following circumstances:

- If you provide a one-time written consent to these transactions
- We provide you with verbal notification at the time the trade is executed that the trade may be executed on a principal basis and we obtain your consent
- We provide certain disclosure to you on your trade confirmation
- We provide you with an annual report of the principal transactions in your account

We and our affiliates maintain inventories and make a market in certain securities that we can buy from or sell to you on terms that generally are as favorable or sometimes more favorable than could be obtained elsewhere. In some cases, it may be difficult to obtain the securities you wish to buy, such as certain municipal securities, from other sources or to obtain a buyer for those securities when you wish to sell. For these reasons, it may be to your advantage to buy them from or sell them to us. However, these possible advantages may be

outweighed by the disadvantages and conflicts of interest described below.

Before consenting to principal transactions, you must be sure that you understand and are willing to accept the risks and conflicts of interests presented by principal trades. Please consult your Financial Advisor or your own legal advisor if you have questions.

**Please note that:**

- **You are not obligated to give us your advance written consent to engage in principal trades for your Strategic Advisor account.**
- **You are also not obligated to provide your verbal consent at the time a trade is executed and may decline to have any specific transaction from being executed on a principal basis.**
- **You may rescind your written consent to principal transactions in your Strategic Advisor account(s) without penalty at any time by prior written notice to us. That revocation will be effective once we have received and have had a reasonable time to act on it in accordance with our procedures (but in any event within 5 business days of our receipt.)**

We will not rely on this consent for transactions in securities issued by us or an affiliate (e.g., UBS structured products) or where UBS is acting as an underwriter or a dealer in a public offering of a security, with the exception of investment-grade, fixed-income securities.

**Conflict of Interest**

UBS and our affiliates expect to earn a profit whenever we engage in principal transactions with you, and depending on the type of security, we may include a profit margin in the price we pay or charge you, by marking up or marking down the price of the security. The profits we or our affiliates earn on these transactions will be in addition to the fees you pay us under the Strategic Advisor program for investment advice, trading, execution, custody and other program services. As a result, principal transactions present a conflict between your interests and our interests and those of our affiliates, because we have a financial incentive to recommend these transactions to you when they might not be in your best interest.

When we propose a principal transaction to you, it is possible that better prices or other terms for the

trade could be obtained from alternative sources not known to UBS. Since there may be securities offered by other dealers only to their clients, you may not be able to compare the price on securities offered by these dealers and to those offered by UBS. These conflicts are addressed as follows:

- We have an obligation to provide you with best execution and we believe we can provide best execution to you by routing certain orders to our affiliate, UBS Securities LLC, for execution on a principal basis
- We monitor our execution services and measure how we meet our best execution obligation by taking into account many factors, including the degree to which our affiliate, UBS Securities, executes principal trades in client accounts and, specifically, the pricing and service quality that we receive in connection with principal trades versus the costs associated with foregoing a trade (if UBS is the only dealer in a security) or executing on an agency basis through another dealer
- The mark-up or mark-down on securities in Strategic Advisor accounts is not shared with your Financial Advisor
- You remain in control of transactions executed through your account and can withhold consent to specific principal trades before each trade is executed or overall upon your notice to us
- Although we are not required to waive or offset our compensation under applicable rules or regulations, for certain security types such as new issue fixed-income securities, we may waive some of the compensation we earn in executing principal trades, or waive a portion of the fee imposed on your account for a period of time as an offset for other compensation we receive

## **2. PACE—Personalized Asset Consulting and Evaluation**

### **PACE Select Advisors Trust (“PACE Select”) and PACE Multi Advisor (“PACE Multi”) Programs**

PACE Select and PACE Multi share certain features, services and basic requirements which are outlined below. PACE combines our ability to evaluate your investment objectives and risk tolerance with professional investment advice, and offers the convenience of style specific mutual funds in PACE Select, and a broad array of mutual funds (non-proprietary and proprietary) available in PACE Multi.

In PACE Select, you may choose a combination of the investment styles and asset classes available through the PACE Select Advisors Trust (the “Trust”), a series of proprietary mutual fund investment portfolios (the “Select Portfolios”). In PACE Multi, you may choose among a variety of no load and load waived shares of mutual funds (“Funds”).

We and/or our affiliates are compensated for providing investment management, distribution and other services to the Select Portfolios and affiliated Funds (“Affiliated Funds”) available through these Programs.

In addition to our wrap fee services, a PACE client also receives the following services:

**Asset Allocation and Investment Selection.** There are differences in the allocations and investment options available in PACE Multi and PACE Select. The PACE Multi default for equity allocations is a Large-SMID-Small allocation, PACE Select only offers a Large/SMID (“SMID” which is a combination of small and medium size mutual funds) asset allocation for the equity portion of your investment.

Based on your Questionnaire, we will recommend a mix of investment styles for both PACE Select and PACE Multi. These allocations seek to appropriately balance your financial objectives with your risk tolerance, as part of a long-term investment strategy. Once you select an appropriate asset allocation for your Program Assets and investments from the investment styles available in each Program, we will execute those transactions in your Program Accounts according to your Target Allocation.

You will make all investment decisions in the Program other than automatic service transactions, if you choose that option (described under “PACE Automatic Investment Options”). Your account contributions and withdrawals will be invested and redeemed in accordance with your Target Allocation.

There is no guarantee that a Select Portfolio will continue to be available through PACE Select or a fund available in PACE Multi for the entire period you participate in PACE. We may add or remove Select Portfolios and funds from the Program at any time and for any reason or, a fund may stop participating in or offering its shares through the Program. Removal of a fund from the Program may cause you to have a taxable event or incur other costs.



If you are invested in a discontinued Select Portfolio or fund, your Financial Advisor can help you determine what action to take. You may decide to replace the discontinued Select Portfolio or fund or sell your shares. We will notify you of the removal or termination of a Select Portfolio or fund and will indicate what action, if any, is suggested. If we discontinue a Select Portfolio, you may incur a tax liability.

### **PACE Select**

You may choose from among the following Select Portfolios of the Trust:

1. PACE Money Market Investments
2. PACE Intermediate Fixed Income Investments
3. PACE Strategic Fixed Income Investments
4. PACE Municipal Fixed Income Investments
5. PACE Government Securities Fixed Income Investments
6. PACE Large Co. Value Equity Investments
7. PACE Large Co. Growth Equity Investments
8. PACE Small/Medium Co. Value Equity Investments
9. PACE Small/Medium Co. Growth Equity Investments
10. PACE Global Real Estate Securities Investments
11. PACE International Equity Investments
12. PACE International Emerging Markets Equity Investments
13. PACE International Fixed Income Investments
14. PACE High Yield Investments
15. PACE Alternative Strategies Investments

Certain share class(es) of these portfolios are offered only to PACE Select clients, except for select share classes for PACE Money Market Investments which is also available to PACE Multi clients. These Portfolios are described in more detail in the Trust's prospectus, which you may obtain at no charge from your Financial Advisor. You will not pay any sales charge when you buy or redeem shares in these portfolios in PACE Select.

### **Important Information Regarding Class P Shares in PACE Select and PACE Money Market Fund Shares:**

- The Select Portfolios offer share classes available outside of the PACE Select program and the P share classes, which are available exclusively through PACE Select (except for PACE Money Market Investments which is also available in PACE Multi). **However, you may buy P class shares of the non-money market Select portfolios only in the PACE Select program.**
- By participating in either PACE Select or PACE Multi you agree to the automatic redemption of the shares of the PACE Money Market Investment once you end

your participation in the PACE program and authorize us to sell your shares. You should carefully consider the potential impact of those sales and restrictions before participating in these types of strategies.

- Upon termination of your participation in PACE Select, you may direct us to liquidate your PACE Select investment or you may continue to hold the Class P shares you purchased while in the PACE program (with the exception of the UBS PACE Money Market Investments which will be liquidated).
- If you decide to hold your PACE Select Class P shares investments after termination, you may not buy any additional Class P shares of the Select Portfolios except through dividend reinvestment and you will no longer will be entitled to the services you received in the PACE Select Program.
- The liquidation of securities may have tax consequences to you.
- If you move your account to another broker-dealer and they do not accept the P class shares, you will be required to sell your shares or maintain them in an account with UBS subject to the restrictions described above.

### **PACE Multi Advisor**

You may choose from among shares of non-affiliated funds and certain designated share classes of affiliated funds and an affiliated money market fund.

### **Account Structure, Fund Eligibility and Impact on PACE Multi Asset Allocation.**

The PACE allocation is held as a separate investment or sub-account in a brokerage account. As a result, you may buy and hold assets in your account that are not invested through the PACE Program, including mutual funds that are not eligible in PACE ("Non-PACE Assets").

You do not need to liquidate securities prior to your participation in PACE because you may hold those securities in your brokerage portion of your account. Neither UBS nor your Financial Advisor will act as your investment advisor with respect to your Non-PACE assets. We will execute transactions in your Non-PACE assets as you direct, as your broker-dealer, and will charge you our customary brokerage commissions or other fees. The PACE Fee does not apply to these other assets or transactions. Non-PACE assets will not be included in your PACE asset allocation or performance report but will be included in your account statements.

We review our offerings in the PACE Multi Program periodically and make new funds eligible for the Program. If a new fund or new share class is made eligible in PACE Multi and you already own that fund or share in the same brokerage account in which you hold the PACE allocation, those existing holdings will be automatically moved to your PACE allocation when the fund/share is made eligible. **Those changes may impact your asset allocation and risk tolerance as well as increase the level of assets on which the PACE fee is charged. You will need to include a target allocation for such funds in order to avoid liquidation upon account rebalancing (see below).** These changes should be discussed with your Financial Advisor.

**Automatic rebalancing will consider all eligible funds whether a target allocation is established or not. If an eligible Fund does not have a target allocation assigned to it, it will be fully liquidated. If you have a target allocation to a fund not currently held in your PACE account, it will be purchased. By executing the Relationship Agreement you authorize us to liquidate and purchase those positions, as applicable under the circumstances. We are not responsible for the tax implications of such liquidations.**

The newly eligible shares or fund will be included as part of your Program Assets for performance and billing purposes, except as described below.

If you have held shares of a newly eligible fund less than 12 months from the date of the initial purchase at UBS, you will not be billed until you have held those shares for a period of 12 months. If, in our opinion, documentation is not reasonably sufficient to show ownership for 12 months, a Program Fee will not be payable on these shares until 12 months after they are placed in the Program. The shares will be included for performance purposes once they are eligible regardless of how long they are held. The newly eligible fund or share class will not be considered a contribution to your Program Assets during the applicable quarter but will be included in your Program Assets on the last day of the quarter for billing purposes unless the exception explained above applies.

**PACE Automatic Investment Options.** We offer several automatic investment options to PACE Multi and PACE Select clients, including:

- Automatic Rebalancing
- Automatic Redemptions
- Automatic purchases

The investment options are administrative in nature and will normally be done on the day or date selected by you on the application. We may delay the processing of these services under certain circumstances as described below.

**The Rebalancing Process.** The PACE Program includes mandatory annual rebalancing. Your PACE assets will automatically be reviewed for rebalancing on an annual basis unless you chose to have rebalancing occur on a semi-annual basis or quarterly basis.

- **Rebalancing Thresholds:** Rebalancing will occur if the percent of your Program assets invested in any mutual fund deviates from the allocation you selected by more than 5% of your total Program assets on the rebalancing date. Taxable accounts will rebalance at a 10% deviation for their annual rebalance, with an option to rebalance at a 5% deviation. We may also provide you with an option to rebalance at a 3.5% deviation in the future. For example, in an account that rebalances annually with a +/- 5% deviation, a mutual fund with a 20% target allocation would trigger a rebalance if its value reached 15% or 25% of the account value.

Rebalancing is accomplished by selling the shares of overweighted Funds/Portfolio(s) and purchasing a corresponding dollar amount of the appropriate Funds/Portfolio(s). Rebalancing transactions will be processed provided that the sale and the purchase meet our trade minimums which are the greater of \$50 or 50 basis points not to exceed \$2500. A \$25 dollar trade minimum will be used if all trades during the rebalance are below \$50. We reserve the right to change the rebalancing percentage measure or the minimum dollar amount of individual rebalancing transactions.

- Annual Rebalancing will occur on or near 13 months from the anniversary of your account opening date, and subsequently 13 months from the previous rebalance date. Accounts scheduled for annual rebalancing in Nov/Dec will be rebalanced in January to avoid tax trading at year end.
- Quarterly Rebalancing is generally done during the third week in February, May, August and November.
- Semi-Annual Rebalancing is generally done in February and August.

**PACE Automatic Purchases.** You may choose to have funds automatically invested based on your Target Allocation, with an amount between \$250, an amount determined by UBS, or an amount you specify.

Depending on your selection, funds will be invested as follows:

- Monthly: on the 15th of every month (or, if the 15th is not a business day, the next business day), or the last business day of every month,
- Quarterly: the last business day of every calendar quarter.

“A business day” means any day that the New York Stock Exchange is open for regular trading.

We expect to introduce a new service in the near future that will allow clients to specify the calendar date and frequency (i.e., monthly or quarterly) in which the automatic purchases will take place.

You may also designate the duration of your automatic purchases or the total target investment amount on the Application. The contribution will first buy the Funds/Portfolios that are underweighted as compared to your Target Allocation and then invest the remaining portion according to the Target Allocation.

We process this service by automatically withdrawing the designated dollar amount from your brokerage account (either cash balances or money market redemption proceeds) and subsequently investing in PACE Program Assets. If there are insufficient funds in your account on the trade date to purchase the full amount specified in your PACE Application, no purchase will be made.

**If you invest Plan assets through PACE and select the automatic purchase option, please note that you must carefully monitor your contributions to prevent them from inadvertently exceeding federal limits on your annual contribution.**

**PACE Automatic Redemptions.** You may have \$250 or more of Program Assets redeemed automatically from Program Assets in proportion to your Target Allocation. Based on your instructions, redemptions will be processed so that cash is available in your account on:

- the 15th (or, if the 15th is not a business day, the prior business day) of every month,
- the last business day of every month, or
- the last business day of every calendar quarter.

A service will be introduced that allows you to specify the date (calendar date) and frequency (monthly or quarterly) in which the automatic redemptions services will be performed.

Shares will be redeemed from each fund that is currently overweighted as compared to your Target Allocation and then redeeming the remaining portion according to your Target Allocation. Additional methods in which a client may redeem shares may be introduced including offering redemptions on a pro-rata basis. We will request redemption two Business Days before the date you select, or such other date as may be necessary to ensure that cash is available in your account on the date selected.

**Redemption proceeds are deposited in your account and are not automatically forwarded to you.**

- **Automatic Redemptions:** If an automatic redemption causes PACE Program Assets to be reduced below levels that impact the management or servicing of the Account, we may ask you to restore your Program Assets to the amount of the Opening Date account minimum within 30 days. If you do not restore your Program Assets to this minimum as requested, we will have the right to terminate your participation in PACE.

Upon termination, we will automatically liquidate your UBS PACE Money Market fund. No automatic redemption will occur if (i) insufficient shares in any Fund are available to process the redemption proportionately in accordance with your Target Allocation; (ii) when the auto redemption request is greater than the account value; and (iii) the redemption request pertains to fund no longer eligible in the Program.

**Delays in Automatic Services:** We will process the automatic services and rebalancing as described above unless market conditions, technology failures, availability of monetary funds from the Select Portfolios or mutual funds, orderly purchases or redemption procedures which may cause delays in the rebalancing process, trading volumes, or other matters beyond our control reasonably preclude us from accurately processing on the required dates or otherwise cause delays in processing, in which case we may alter the date (day) to the next available date that such processing can be accurately completed.

In addition, we may adjust the date on which reviews and rebalancings are done if necessary to ensure accurate processing of the review or rebalancing. Rebalancing transactions will be processed provided that the sale and the purchase meet our trade minimums which are the

greater of \$50 or 50 basis points not to exceed \$2500. A \$25 dollar trade minimum will be used if all trades during the rebalance are below \$50.

Depending on the circumstances and in order to ensure the accurate processing of the automatic investment options, including rebalancing, we may take any of the following actions:

- **Alter or delay the rebalancing day to the next available date**
- **Change the rebalancing percentage for that rebalancing event only or the minimum dollar amount of the individual rebalancing transactions**
- **Process rebalancing for accounts for PACE Select and PACE Multi on different days**
- **Process rebalancing for taxable and non-taxable accounts on different days**
- **Rebalance all accounts based on a random rotation process**

**We may also suspend a rebalancing event or an automatic service event (purchases and redemptions), if based on the factors described above, we cannot ensure the orderly and accurate processing of the rebalancing or the automatic service. We will notify you of that suspension and offer to you the option to have your account manually rebalanced for that period.**

In addition rebalancing will not occur:

- if the PACE Account has a pending or unprocessed trade or margin debit,
- In PACE Multi, if you hold shares of a fund that has been moved to a different asset category.

**Item 5. Account Requirements and Types of Clients**

**Types of Clients**

We provide investment Advisory services to individuals, banks, thrift institutions, mutual funds and other investment companies, pension and employee benefit plans, trusts, estates, charities, corporations and other business and government entities. Generally, the majority of our clients in the Advisory programs are individuals.

**A. Account Requirements for Establishing and Maintaining Advisory Accounts with Our Firm**

**Minimum Account Requirements.** The table below lists the minimum investments required to establish an Account in the Programs described in this brochure. We do not require that accounts maintain a specific asset level to remain in the Programs. However, we reserve the right, in our sole discretion, to change account minimums for new accounts, impose higher account minimums for certain strategies or portfolios that may be offered from time to time, to terminate accounts that fall below certain thresholds that may impact the management or servicing of the Account, or require that additional monies or securities be deposited in the Account in order to remain in the Program.

**Advisory Programs: Minimum Investments for Opening Accounts**

Program Name	Minimum Account Size (for Account Opening)
<b>UBS Managed Portfolio Program</b>	The minimum account size required to open a Program varies by strategy:
	UBS Managed Portfolio of Funds: \$5,000 or \$50,000 in eligible assets (depending on the strategy selected)
	UBS Managed Portfolio of Global Selections: \$250,000 in eligible assets
	UBS Managed Portfolio Advised by Richard Bernstein Advisors LLC: \$50,000 in eligible assets
	UBS Managed Portfolio Selections: \$100,000 in eligible assets
<b>Portfolio Management Program (PMP)</b>	UBS Managed Portfolio of ETFs in the MAC Program: \$50,000 in eligible assets
	UBS Managed Portfolio of ESG Investments: \$100,000 in eligible assets.
	\$50,000 in eligible assets
<b>Mutual Fund Discretionary Program</b>	\$5,000 in eligible assets

## Advisory Programs: Minimum Investments for Opening Accounts

Program Name	Minimum Account Size (for Account Opening)
<b>ACCESS</b>	\$100,000 in eligible assets Certain fixed income, international and multiple style accounts have minimums from \$175,000 to over \$3,000,000
<b>Managed Accounts Consulting (MAC)</b>	\$100,000 or the manager's minimum (whichever is greater)  We may accept accounts with lower minimum investments for certain specialized strategies on a limited exception basis only.  \$10,000,000 for MAC accounts held at an outside custodian, subject to limited exceptions.
<b>Strategic Wealth Portfolio (SWP)</b>	\$375,000. May be higher for certain SMA strategies (for example fixed income and international) and allocations.
<b>PACE Select</b>	\$10,000
<b>PACE Multi</b>	\$5,000
<b>UBS Strategic Advisor</b>	\$50,000 in eligible billable assets. If you link to another Strategic Advisor account, only one of the Related Accounts is subject to this minimum requirement. Each other Related Account is subject to a minimum account size of \$10,000 in eligible assets.

## B. Your Investment Advisory Agreement

We will provide you with an Advisory Relationship Agreement which, when signed by you, will apply to all future Advisory accounts you establish with our Firm. After we receive and accept your signed Agreement, you may establish accounts with us by contacting your Financial Advisors and providing verbal or written instructions.

The Advisory Relationship Agreement and our Form ADV Disclosure Brochure apply to all of your Advisory accounts at UBS, including any Advisory accounts you may open in the future. We will not provide another copy of the Advisory Relationship Agreement unless there are updates and amendments to your account agreements. We will

not provide another copy of the Form ADV Disclosure Brochure when you establish new Advisory accounts unless there are material changes to the document we originally provided to you. In addition, annually we will provide you with a copy of our updated Form ADV Disclosure Brochure or a summary of material changes.

Because the Agreement and the Form ADV Brochure apply to all the different types of Advisory accounts you can establish with us, some of the information in those documents and the other disclosures we send you may not apply to you now, but may apply in the future as you establish other accounts with us. **Please retain these documents for future reference as they contain important information if you decide to add services or open new Advisory accounts with our Firm.**

If you are establishing an investment Advisory account with us, you will be required to execute both an investment Advisory agreement and a brokerage account agreement (if you have not done so already). The brokerage agreement allows your account to have trading capability and custody services. Once executed, the brokerage agreement supplements your Advisory agreement, and all, collectively, govern your relationship with us. In this case, your account will be designated as "Advisory" and our obligations to you as they pertain to that account will be that of an investment adviser as described in your Advisory Relationship Agreement with us.

Termination of your Account will end our investment advisory fiduciary relationship with you as it pertains to that Account and, will cause your account to be converted to, and designated as, a brokerage account only. Your investment advisory agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

Participation in our Programs, our obligations to you under the Programs, and your ability to hold shares that, in some cases, are available exclusively through our Programs are contingent on you returning an executed Advisory Relationship Agreement to us. Failure to return the signed Agreement to us will result in your investments being deemed and charged as brokerage and the liquidation of investments that may be held exclusively in our Advisory Programs, for example, PACE Money Market fund shares.

Some of our Programs permit you to delegate proxy voting authority to UBS or your SMA Manager, suppress your receipt of daily trade confirmations and/or, elect to permit principal trades in your account. We ask you to provide these instructions when you establish your first Advisory account under the relationship Agreement. We will apply your preferences (where those features are available) to all Advisory accounts you establish under the Agreement, unless you provide different instructions for specific accounts.

### **Opening Advisory Accounts on Verbal Instructions After Execution of the Advisory Relationship Agreement:**

**Agreement:** You may decide to open additional Advisory accounts or take advantage of new services and account features in the future without signing additional documents or agreements. When that happens, we will confirm your instructions in writing and provide any relevant agreements and disclosures you have not already received. For certain accounts and services, you may be required to sign additional documents and agreements. All of the agreements and disclosures we send you are considered part of the Advisory Relationship Agreement.

**Account Questionnaires:** To become a Program client (except for MAC), you must complete, with the assistance of your Financial Advisor, an application that includes an Account Profile Questionnaire (the "Questionnaire") to determine your investment needs, objectives and risk tolerances for the assets being invested in that Program. The Questionnaire forms the basis of your selection of an investment strategy or asset allocations for your Program account.

**Confirmation of Your Account Record:** After a new account is opened or whenever your investment objectives or financial information is updated, we confirm your personal information to verify that our records are correct. Please review those materials carefully and report any discrepancies to your Financial Advisor as soon as possible. Updates to existing accounts are reflected in your next account statement. Information for new accounts is confirmed and sent promptly after account acceptance. It is your responsibility to inform us of any material changes in your objectives, financial condition or other changes that could affect how your Program Assets are being invested.

You are responsible for providing us with your current address. If we are unable to contact you by mail, we will be required to terminate your account from the program. Upon termination, the assets will continue to be invested

in the existing positions when permissible given the nature of the securities, and will be held in a brokerage account. Your Advisory agreement with us no longer applies. Any securities that cannot be held in a brokerage account will be liquidated.

In certain cases, the Advisory and consulting services available in our programs may be provided by Financial Advisors that are registered with companies that are affiliated with us.

### **Ownership of Securities and Investment Discretion.**

You are the beneficial owner of all securities in your Account and, other than as specifically delegated to us in your Agreement, you retain all rights related to the ownership of those securities. You retain trading authority for Accounts in Non-Discretionary Programs and SWP Non-Discretionary Assets. All transactions in those Accounts and sub-accounts will be executed by UBS based on your instructions to us. Neither UBS nor your Financial Advisor will have any discretion with respect to the investment of those Program assets.

Please note that securities transactions in your Account(s), liquidations, redemptions, rebalancing and other portfolio changes may result in you incurring gains or losses for income tax purposes. Neither UBS Financial Services Inc. nor its employees provide legal or tax advice. Please consult with your legal and tax advisors regarding this matter.

**ACCESS/MAC/SWP.** Based on the authority you delegate to us in your Agreement, and as applicable given your Program selection, we will engage the SMA Managers to manage your accounts. You also authorize UBS to take any actions necessary to open and maintain your Accounts or to complete and pay for transactions for your Accounts.

**Discretionary Programs.** If you select one of our Discretionary Programs, your signature gives UBS investment discretion over those Program accounts and authorizes us to delegate investment selection for your accounts to sub-advisors. With that authority, we may delegate the selection of all or a portion of the securities for your Account to a sub-advisor for inclusion in the portfolio.

**Transactions in your SMA Programs, Discretionary Programs and your SWP SMA Manager Sub-accounts.** After your Account is accepted for a Discretionary, SMA or Unified Managed Account Program, you can no longer place orders to trade those



Accounts or sub-accounts. However, we may accept your instructions for transactions associated with tax planning (i.e., tax gain and loss sales), if your instructions are consistent with your Portfolio Manager/SMA Manager's strategy. For tax gain or loss sale requests specifically, each SMA Manager will make his or her own qualitative assessment of market liquidity while considering your request. After December 1 of each calendar year, however, there may be reduced liquidity in the market and your SMA Manager may determine that executing your request in such an environment would not be in your best interest and/or would interfere with the SMA Manager's ability to properly deliver the stated strategy. **For this reason, tax sales should be requested before December 1 of each calendar year.**

**Custody.** Generally, the programs described in this brochure require you to custody your account assets with UBS. However, we may, on an exception basis, accept certain accounts whose assets are custodied with other financial institutions who meet the definition of a qualified custodian. Those accounts are referred to as delivery versus payment ("DVP") accounts.

If you choose to proceed on this basis, you do so against our recommendation and with the understanding that you will be incurring additional costs in excess of your Program Fee (for example, custody costs), you will not receive a Performance Review from us, and billing for your account, including the accurate processing of rebates if applicable, is the responsibility of your custodian. For DVP accounts, you agree to use only a qualified custodian that is a bank, a U.S. registered broker-dealer, a futures commission merchant or a foreign financial institution. This custodian must meet the definition of a "qualified custodian" that is established in Rule 206(4)-3(c)(3) under the Investment Advisers Act of 1940.

We will send you periodic account statements reflecting the transactions in your Account. We urge you to compare those statements with the ones you receive from your custodian.

### **1. Funding Your Account.**

You may fund your account by depositing cash and/or eligible securities designated as "eligible" for the specific Program; funding Accounts with UBS securities is permitted only for certain programs. If you fund your account with securities, you authorize and direct UBS and/or your SMA Manager, as applicable given the terms of your program, to liquidate those securities on

your behalf and to allocate the proceeds in accordance with your selected investment style. We will not advise you regarding the liquidation of these securities. **We will execute those transactions free of commission charges; however, depending on the type of security involved, those liquidations may result in you incurring redemption charges and taxable gains or losses.** You should review the potential tax consequences of these liquidations with your tax advisor before funding your account with securities.

If you sold mutual fund securities either before entering into an Advisory program or while in a program (for example, funding your account with B or C shares), you may have paid either upfront or back-end charges depending on the share class. Now that you are participating in an Advisory program, you will incur our Program Fees, in addition to the operating fees and expenses charged by the mutual funds.

Class A shares used to fund accounts subsequent to the share class conversions in the Program to institutional, advisor or fee-based share classes (see "*Mutual Fund Share Classes*" below for details) will be automatically converted, on a tax-free exchange basis (subject to availability of that service by the mutual fund sponsor), to the new share class available for the relevant fund. We will undertake this action on your behalf based on your authorization in the Advisory Relationship Agreement.

When liquidating these securities for purposes of establishing your account, we will be acting as your broker, not your investment adviser. Liquidations will be effected promptly after acceptance of your account at the then prevailing market prices. We will not be responsible for the liquidations and any consequences due to your failure to notify us of other existing security holdings, the overall effect of liquidations once effected, or the loss of potential gains due to movements in the market prices or changes in market conditions.

Securities that are ineligible for an Investment Advisory program should be transferred to a brokerage account. If you choose to liquidate ineligible securities in order to fund an account with the cash proceeds, those liquidations will be subject to commission charges.

### **For SWP Accounts Only—Funding Multiple Investment Managers.**

If you have selected two or more SMA Managers for your Target Allocation either at the time you initially open the Account or upon reallocation, and there is not sufficient

cash and/or securities to fund all Investment Managers, funding will occur as follows:

- If funding with cash alone, you direct UBS to fund the SMA Managers you selected in the order that would result in the least amount of cash being left uninvested. For instance, if you selected two Managers, the Manager with the highest minimum investment will be funded first and then the additional Managers.
- If two Managers have the same minimum funding requirements, you direct UBS to use a random selection methodology to identify the Manager to be funded.
- Cash that remains after the maximum number of Managers are funded, will be invested in mutual funds and/or ETFs according to your Target Asset Allocation. Or the cash may be invested/swept depending on the sweep option that you selected.
- If you fund your SWP accounts with securities (either completely or partially):
  - Fixed income securities: all fixed income funding securities will be allocated to the fixed income SMA Managers first in order to determine whether they should be held or sold—even if the total value of the fixed income securities used to fund your Account exceeds the value that is allocated to the fixed income investment managers. If securities are sold, the proceeds will be allocated to your other SMA Managers and/or other investments as described above.
  - Equity securities will be allocated to the SMA Manager whose investment strategy comprises the greatest amount of equity funding securities, based on dollar value.
  - Equity securities that are not part of the equity SMA Manager's portfolio will be sold as described in the **"Funding Your Account"** section above, to the extent necessary to meet the SMA Manager's investment minimum. If additional SMA Managers can be funded based on available funds, they will be funded in order of highest to lowest match of equity funding securities to securities in the SMA Managers' respective investment strategies.

- **Your initial SWP Program Fee will be based on the Target Allocation you selected rather than on your actual asset allocation, as in certain circumstances, one or more Investment Managers may not be fully funded for a limited period of time and your Target Allocation may not be fully implemented.**

## **2. Investment strategies; Eligible and Ineligible Assets**

We employ a variety of investment strategies in connection with our wrap fee and other investment Advisory services, depending upon:

- The type of client involved
- The program chosen
- The objective selected by the client

These strategies may involve the use of proprietary models or research blends, long-term and short-term investments and covered option writing. In special circumstances, these strategies may rely on short sales, options or other hedging techniques. We may use our discretion to expand the offerings in our programs to include multiple style accounts and investment strategies that include:

- The purchase and sale of mutual funds
- ETFs
- Alternative investment vehicles (i.e., hedge funds)
- Margin and short sales
- Option strategies

We may impose special suitability and investment requirements with respect to these portfolios.

### **Eligible Assets and Ineligible Assets**

We require that you hold and purchase only eligible assets in your Advisory accounts. Generally, with respect to most of the Programs described in this brochure, you or your SMA Manager or Portfolio Manager may purchase and sell securities of any kind which may include the following eligible assets:

- U.S. and foreign stocks
- Bonds
- Options
- American Depositary Receipts
- Foreign ordinary shares
- Open and closed-end funds
- Eligible UITs
- ETFs
- Money market funds
- Public REITs
- Offshore Funds



- Open-end mutual funds
- Institutional Mutual Fund Share Classes (on a “hold only” basis in certain programs)
- Structured Products (certain programs only)

The following products are not eligible (“Ineligible Assets”) for our Advisory programs:

- Insurance and annuity products
- Limited partnership interests
- Private placements
- IPOs
- Syndicate offerings
- Alternative investments (except for non-daily traded alternative investment funds available through the SWP program and certain alternative investments available in Strategic Advisor)
- UBS securities (in certain programs)
- Auction-rate securities (in certain programs)
- Floating-rate securities
- Listed or OTC index warrants
- Commodities and futures (in certain programs)
- Class B and class C share mutual funds

**The list above describes the assets classes which are usually (but not always) eligible or ineligible in our Programs. The list can change at any time in our discretion.**

**Eligibility of investments can vary by program and strategy type. Please contact your Financial Advisor for the list of eligible investments in your specific program.**

Most of our Advisory programs do not offer the ability to conduct principal trades. As such, in these accounts, you may not hold, purchase or sell securities that trade only on a principal basis. Currently, you have access to principal execution in your Advisory account only if your account is in MAC (unaffiliated managers only) and for certain limited securities in the UBS Strategic Advisor program.

**UBS Stock.** Subject to the exception described below, our Advisory Programs do **not offer UBS stock or UBS securities, except for the UBS mutual funds and money market funds used as cash sweep vehicles in the Programs and UBS Exchange Traded Notes in certain programs.** Program Accounts may not be funded by depositing UBS stock.

SMA Managers in the ACCESS, MAC, and SWP Programs who are not affiliated with UBS may be able to purchase

UBS securities for your Accounts. We may expand this option to other Programs in the future. UBS securities are issued by UBS AG, the parent company of UBS, or another UBS affiliate under common control. As a UBS AG subsidiary, we have a control relationship (we are either controlled by or under common control) with the issuer of such securities.

**Impact of Ineligible Assets in Your Accounts:** Neither UBS, your SMA Manager nor your Financial Advisor will act as your investment advisor with respect to Ineligible Assets. If you hold Ineligible Assets in your Advisory account and you also have a separate UBS commission-based brokerage account, we may transfer those assets from your Program account to your UBS commission-based brokerage account in order to facilitate our billing and performance reporting. The transfer of Ineligible Assets from your Advisory Program account to your brokerage account will **not** result in liquidation of your securities or taxable events, commissions or any other compensation either to UBS or your Financial Advisor.

If you do not have a separate UBS commission-based brokerage account and you decide to hold Ineligible Assets in your Advisory account, you do so against our recommendation and with the understanding that the value of those securities may be included for purposes of calculating and reporting the performance of your account, and calculating the Program Fee, resulting in a higher fee to us. It may also cause a trade error(s) due to overinvestment and may lead to termination of your account.

### **Classification and Availability of Investments, Mutual Funds, and PACE Select Trust Portfolios.**

We categorize all eligible SMA Managers, mutual funds, ETFs, and other pooled investment vehicles into asset categories. These categories are defined by UBS. We may add or remove asset categories at any time. We also may change an investment’s asset category, based on various factors, including for example, a mutual fund’s portfolio holdings. In assigning each mutual fund to an asset category, we may rely solely on third-party vendors or on the fund’s prospectus and other information that is publicly available or provided to us by the fund’s agents.

In the event of these changes, you will be required to accept such changes to the Advisory program, investment, and/or the funds. If you choose not to accept such changes, you will no longer be eligible to participate in the Advisory program.

There can be no assurance that any of the investments that are available or eligible in our Advisory programs will always remain available for purchase through the program. We may add or remove securities or issuers at any time, or an issuer or sponsor may stop offering its securities through or participating in the program. Depending on the circumstances, those investments may be sold, transferred to a brokerage account or registered directly in your name with the issuer's transfer agent. This may result in additional costs or be a taxable event for you.

### **Mutual Fund Share Classes Available in the Programs.**

For Programs that offer mutual funds, the offering includes affiliated and non-affiliated mutual funds. We will provide you with mutual fund prospectuses and other fund information as you may reasonably request to assist you in completing appropriate forms for purchases, redemptions, account designations, address changes and other transactions involving these investments.

- **Class A Shares:** Generally, our Advisory programs offer Class A shares of mutual funds, which are sold on a no-load or load-waived basis (i.e., no upfront sales charge). These Class A shares normally impose a shareholder servicing fee, commonly referred to as a 12b-1 fee, which you pay directly to the fund company. As a distributor of mutual funds, we and our Financial Advisors receive a portion of the 12b-1 fees for the services we provide.
- **Institutional and No Load Shares (Hold Only):** In addition to offering no-load or load-waived Class A shares, we may also offer institutional, advisor or fee-based share classes (where available) in the future, either as "hold only" investments or for additional purchases for some or all of the funds available in our Advisory programs. As with the no-load or load-waived Class A Shares, these share classes do not impose a sales charge at the time of purchase. However, because most institutional, advisor or fee-based share classes do not impose a 12b-1 shareholder servicing fee, these share classes are usually more cost effective than the Class A shares. You may be able to purchase and hold these shares in your brokerage account for a transaction fee of \$75 and exclude these assets from your Program Fee.
- We may, in the future, convert some or all of our Programs to offer exclusively (where available) the Institutional, Advisor or Fee-Based share classes. We will notify you of these changes. If you hold Class A

shares at the time we convert each Program Fund to a new share class, then we will attempt to convert your Class A shares on a tax-free basis if possible into the institutional, advisor or fee-based share class. At our discretion, we may allow existing clients to hold Class A shares.

Class A shares that are used to fund accounts subsequent to the share class conversions in each program will be automatically converted, on a tax-free exchange basis, (subject to availability of that service) to the new share class available for the relevant fund. After you sign the Advisory Relationship Agreement, we have the authority to conduct such tax-free exchanges on your behalf.

**Transferring Mutual Funds Shares into Your Advisory Accounts.** We may accept transferred shares of mutual funds purchased outside of our Advisory Programs at UBS or at other financial institutions. Fund shares transferred into your Advisory Accounts are referred to as "Transferred Shares." Transferred Shares may have been assessed a sales load, sales charge or distribution fees previously and, you will be assessed the Program Fee based on the value of those shares except in certain instances.

If your Transferred Shares have a front-end sales load and were purchased at UBS, those shares will not be charged the Program Fee until 12 months have elapsed from the date of initial purchase. Transferred Shares purchased at other financial institutions will be assessed the Program Fee immediately. Because the exceptions are not available for shares purchased at another financial institution, the overall cost to you of transferring shares into the Programs may be higher for shares you purchased at another financial institution. Please review the costs carefully before making a decision to transfer fund shares into your Advisory Accounts. If you sold mutual fund shares prior to entering into, or while in our Programs, you may have paid certain fees with respect to that sale or incurred charges on the initial purchase of certain share classes. You will now incur the Program Fee on eligible mutual fund shares held in your Accounts, in addition to the operating fees and expenses applicable to mutual funds.

### **3. Investment Restrictions & Investment Policy Statements**

**Investment Restrictions.** Our Discretionary and SMA Programs offer you the ability to impose reasonable investment restrictions on the management of your Accounts including restrictions as to permissible securities, industries, industry sectors or credit ratings.

Investment restrictions will apply only to those assets over which we or your SMA Manager have discretion. Investment restrictions are not applicable to, and may not be imposed on, the non-discretionary portion of your SWP Account or “ineligible” assets you may hold in the Accounts.

These preferences will apply only to the account you designate and vary by type of program, account or strategy. When you establish your accounts in these Programs, we will ask you if you want to impose any investment restrictions on the management of your Account. Depending on the structure of the program you selected, we or your SMA Manager, as the case may be, will seek to adhere to these restrictions on a reasonable basis. However, if the strategy you selected utilizes commingled vehicles (for example, mutual funds, exchange traded funds or alternative investments), any restrictions you place on your account will not flow through to the securities owned by those commingled vehicles. **Also, given the structure of most pooled investment vehicles, the 100% mutual fund/ETF portfolios can only accommodate restrictions on an individual investment vehicle.**

We or your SMA Manager may refuse to accept an account for management in cases where we find the restriction to be onerous. In this circumstance, you would need to select a new SMA Manager (or other investment). This may delay investment of the entire account.

**Investment Restrictions for MAC Accounts:** Clients in the MAC program must communicate investment restrictions directly to the MAC SMA Manager. It is also the client’s and the SMA Manager’s responsibility to monitor compliance with specific investment restrictions. Neither UBS nor your Financial Advisor will monitor such compliance. Where our Portfolio Managers serve as your MAC SMA Manager, we will seek to comply with reasonable restrictions you place on your accounts.

Accounts with investment restrictions may perform differently from accounts without restrictions and performance may be lower. To comply with your investment restrictions, we obtain and rely on information about company and industry classifications, credit ratings, and industry groupings from third parties. The category restrictions we offer may be overly or less inclusive, depending on the methodology used by the third parties to define the categories. Although we believe this information to be reliable, we do not independently verify or guarantee the accuracy. The

change of the classification of a company, the grouping of an industry or the credit rating of a security may force the SMA Manager, as the case may be, to sell securities in a client’s account at an inopportune time, possibly causing a taxable event to the client. In addition, due to corporate actions at an issuer, including but not limited to mergers, spin-offs and other types of reorganizations, new securities may be issued and/or certain securities will no longer exist following the corporate action and we may or may not restrict the security owned following a corporate action depending on the classification of those securities by the vendor.

**Investment Policy Statements.** Since an Advisory account is generally only one component of a client’s overall portfolio, we will not approve or otherwise monitor compliance with investment policy statements when provided in connection with the opening of an Account in the Programs described in this brochure, at account conversion (for acquisitions) or otherwise. In connection with these accounts, we will not be responsible for ensuring that your investment policy statement and asset allocation choices comply with all specific legal, actuarial or other requirements that apply to you. That responsibility rests solely with you and you should consult with your legal and tax advisors regarding those matters. You may enter into separate arrangements in our Institutional Consulting Program for the development and monitoring of investment policy statements for your investment portfolio.

#### **4. Performance Reporting for Your Account**

We will provide you with a quarterly performance review once your Account is enrolled in our Program(s) for one full calendar quarter, and for each quarter thereafter. The performance review summarizes the performance of your Account during the preceding quarter as well as historical periods, if applicable. We use our best efforts to ensure timely delivery of these reports, but reserve the right to delay delivery to ensure accuracy and completeness. You are responsible for reviewing these materials and reporting any discrepancies to your Financial Advisor as soon as possible. With limited exceptions, performance reporting is not available for accounts whose assets are not custodied with us.

Please see *“Portfolio Management Selection and Evaluation—Performance Reviews of SMA Managers, Portfolio Managers and Financial Advisors in our Advisory Programs”* for a description of our performance evaluation process and our selection of indices in the various Programs.

Your account may be part of a consulting program for portfolio-wide performance analysis (e.g., UBS Institutional Consulting Program). If the UBS Performance and Reporting Group prepares a consolidated performance report for the accounts in your UBS Institutional Consulting relationship, you may not receive the performance review for your individual MAC, ACCESS or other Advisory program accounts. Instead, you will receive a portfolio review according to the guidelines you established under your UBS Institutional Consulting Program agreement. This option to have a tailored performance review is only available when your UBS Institutional Consulting Program consolidated reviews are prepared by our UBS Performance and Reporting Group.

At your discretion, you may direct us to suspend the delivery of performance reviews to you. That request must be submitted in writing to your Financial Advisor.

- **Impact of ineligible assets on performance reporting:** Since ineligible assets are not considered Advisory assets, the inclusion of such securities will impact the actual performance of the Advisory assets in your account and, therefore, we may exclude the Account from receiving a quarterly performance review and/or remove it from the Program until the ineligible assets are removed.
- **Aggregating accounts for quarterly performance reviews.** Related accounts may also be aggregated for performance reporting. Please contact your Financial Advisor to have your related accounts aggregated for performance reporting.

## 5. Trade Confirmations and Account Statements

We will send you confirmations of transactions for your Accounts, as well as monthly account statements.

For our Discretionary Programs, SMA Programs, and the SMA Manager assets in your Strategic Wealth Portfolio Account, we offer you the option of receiving your trade confirmations monthly instead of as the transactions take place. Simply check the box labeled "TRADE CONFIRMATIONS" on the Program Application. **Unless you provide different instructions, we will deliver your trade confirmations the same way for Advisory Accounts you establish now and in the future.**

Doing so will waive your right to receive immediate trade confirmations for those Accounts and any future Advisory Accounts you establish with us and will instruct UBS to send trade confirmations to your SMA Manager.

**You are not required to select this option in order to participate or continue to participate in our Programs, nor will you pay additional fees if you choose to elect this option. You may change this instruction for all or individual accounts at any time by notifying UBS in writing.** All trade confirmations for Non-discretionary Assets purchased or sold in your SWP Account will be sent to you immediately following the transaction.

**Trade Confirmation for Automatic Transactions in the PACE Program:** Automated services in your PACE Account include automatic rebalancing, purchases or redemptions. Trade confirmations for transactions resulting from those services will be provided to you, as well as for transactions completed in order to debit your PACE Program Fee, on a monthly basis with your account statement. You will not pay or incur additional fees by opting to receive monthly trade confirmations. You may change this instruction at any time by contacting your Financial Advisor. Changes will be effective with your next scheduled automatic service. For any other transactions effected in your PACE investment outside of the automatic services, you will receive immediate confirmations following the transaction.

## 6. Electronic delivery of documents

To the extent permissible by applicable law, we may, with your prior consent, deliver trade confirmations, Form ADV Disclosure brochures, performance monitors, prospectuses, offering documents and other documents and notices related to your accounts, trades and relationship with us via electronic format.

UBS offers certain communications through electronic delivery. Examples include: statements, trade confirmations and notices; shareholder communications, including fund reports, prospectuses and proxies; quarterly performance reports; tax reporting documents; Client and account information documents; other firm documents that may be available now or in the future.

We will automatically enroll you in electronic delivery for your Advisory accounts if you select this option in your brokerage account agreement.

**You may change your delivery preferences at any time by logging into UBS Online Services at: <http://www.ubs.com/edelivery>. You may also change your delivery preferences by contacting your Financial Advisor.**

When a new prospectus is available, we will send you an e-mail notification to the e-mail address you have provided to us. The e-mail will include a link that will take you directly to where the prospectus can be viewed and downloaded. Prospectuses contain important information regarding your investments. We recommend that you read them carefully and consider investment objectives, risks, charges and expenses before investing, and maintain them in your files for future reference. If you have any questions, please contact your Financial Advisor. If your e-mail address becomes outdated or we receive messages that a prospectus sent to you is not deliverable to the e-mail address you provided, we will send the document to you via regular mail.

## 7. Valuation and Other Information

To determine the value of securities in your account, we generally rely on third party quotation services. If a price is unavailable or believed to be unreliable, we may determine the price in good faith and may use other sources such as the last recorded transaction. When securities are held at another custodian, we will generally rely on the value provided by that custodian.

If your investment strategy includes mutual funds, in computing the value of your Program assets, shares of UBS mutual funds will be valued at their respective net asset values on the valuation date calculated in accordance with the fund's current prospectus. Shares of non-affiliated funds will be valued at their net asset values on the valuation date as provided by pricing sources that we believe to be reliable. This pricing information may not be accurate, complete or provided in a timely manner. If the net asset value for particular shares is not available for the valuation date, the most recent available net asset value will be used. Similarly, valuation data for certain private or illiquid investments may not be provided to us in a timely manner, resulting in valuations that are not current in your statements and Performance Reviews.

## 8. Cash Balances in your Advisory Accounts

Generally, some portion of your Account will be held in cash, cash equivalents or money market mutual funds as part of the overall investment strategy for the account. There is some important information you should consider in connection with these sweep vehicles:

- **UBS Proprietary Investments:** When permitted by law, available cash in your Account is swept to our affiliate UBS Bank USA or into UBS money market funds for which we or our affiliates receive compensation for services in addition to the

Program Fees you pay us. Please see *“Participation or Interest in Client Transactions—Additional sources of compensation—Affiliated Money Market Funds available as sweep vehicles in Advisory Accounts”* for a description of the Advisory fees that we and our affiliate receive from the money market funds.

- If you close your Advisory Account, we will sell the assets held in certain money market funds. Please see section *“Closing Your Advisory Accounts; Terminating Your Agreement—Automatic Liquidation of Certain Assets at Account Termination”* for details.
- When your Advisory account is closed, it becomes a brokerage account and is subject to the terms and conditions of your brokerage account agreement. The sweep options in Advisory and brokerage accounts are different and depending on the circumstances, may yield significantly different rates of return on the free cash in your brokerage account. This may result in additional compensation to UBS, its Financial Advisors and UBS affiliates. The sweep options for the cash held in brokerage accounts are defined in the brokerage account agreement.
- Your Program Fee applies to the cash and cash equivalents in your account, including cash that is swept into the various sweep funds or International Deposit Accounts (IDAs). Certain programs may limit the amount of cash that is subject to the Program Fee. Please see section *“Billing Practices—Billing on Cash and Cash Equivalents in Your Strategic Advisor, UBS Managed Portfolio and PACE Accounts”* for details.

We offer a sweep feature for our Accounts as a service to you. We may change or discontinue the sweep feature, programs or specific sweep options at any time in our sole discretion. We will notify you of material changes to this account feature.

- **Domestic accounts:** We will automatically sweep cash balances in your Advisory accounts into money market mutual funds and/or bank deposit accounts including, as permitted by law, those affiliated with UBS for which we or our affiliates receive compensation for services in addition to the Program fees you pay us. For more information about the bank deposit program and these funds please contact your Financial Advisor for a copy of the money market fund prospectus(es) and the UBS Deposit Account Sweep Program Disclosure Statement. If your sweep option changes as a result of your Advisory selection,

the prospectus will be sent to you as part of your Welcome Package when we confirm that your Account has been accepted.

- **Retirement accounts:** For certain programs, cash balances in accounts subject to ERISA or IRAs may also be invested in funds serviced by UBS or our affiliates. Our compensation from these funds will be limited to reimbursement of our direct costs and expenses for providing services to the funds, excluding overhead costs or profits. All fees and reimbursements for direct costs and expenses paid to us by a fund are in addition to the fees you pay us.

**UBS Deposit Account Sweep Program (EFFECTIVE ON OR ABOUT APRIL 9, 2012):** Starting on or about April 9, 2012, cash in eligible Advisory Accounts will be swept to interest-bearing deposit accounts (Deposit Accounts) at UBS Bank USA (Bank), an FDIC member institution and an affiliate of UBS, through the UBS Deposit Account Sweep Program (Bank Deposit Program).

The Bank Deposit Program sweep feature is available for all Advisory Accounts **except:** international accounts, ERISA plan accounts, and accounts that are owned by non-natural persons. Examples of accounts that are **not** eligible include: nonprofit organizations, estates, trusts where all beneficiaries are not natural persons or nonprofit organizations; corporations, partnerships, limited liability companies, associations and business trusts or other organizations.

For eligible Accounts, starting on or about April 9, 2012 (the effective date):

- Your new cash will be deposited automatically – or “swept” —into the Deposit Accounts up to a specified limit, or “Cap,” of \$250,000 per account owner for each Account. The Cap limit applies to each Account. For example, for joint accounts with two beneficial owners, cash will sweep to a Deposit Account up to a Cap of \$500,000 (\$250,000 for each owner). If the same owners have a second joint account, the cash in the second account will also sweep to a Deposit Account up to a Cap of \$500,000 (the total sweep to the Deposit Account is \$1 million). See important information about FDIC coverage below.
- When you reach the Cap, new cash will then sweep to the money market fund that was the sweep option for your Advisory Account before the effective date. Taxable accounts may change the money market fund

used as the secondary sweep option by contacting their Financial Advisor.

- Taxable money market funds will no longer be available as your sweep option for cash amounts below the Cap in taxable Advisory Accounts.

The changes do not apply to Advisory Accounts with tax-advantaged money market funds as the sweep option, and cash in these Accounts will continue to sweep to that Fund unless you instruct us to change your sweep option.

### **Deposits through the Deposit Sweep Program and applicable limits per account**

In the Bank Deposit Sweep Program, cash balances (available cash) up to a maximum limit, or Cap, will be automatically deposited into Deposit Accounts at the Bank. The Cap amount generally is equal to \$250,000 per owner of your UBS account. The Cap limit applies to each account.

We do not combine the amount of cash in multiple accounts for purposes of applying the Cap to each account. Please see the Program Disclosure for more information regarding how the Cap amount is determined for accounts held in different ownership capacities.

When converting to an Advisory Account your UBS Bank USA Sweep Deposit balance will be automatically capped based on account ownership limits. Amounts in excess of the cap will be swept into your secondary sweep option. The RMA Money Fund, Cash Reserves Money Fund, Liquid Assets (for Individual Retirement Accounts) or a tax-free money market fund you select will be used as your secondary sweep option for your investment advisory account depending on your program selection and account type.

### **FDIC Insurance coverage and limitations**

Funds in the Deposit Accounts at the Bank are eligible for deposit insurance by the FDIC up to a total of \$250,000 principal and accrued interest for each insurable ownership capacity (e.g., individual, joint, IRA). Funds deposited in Deposit Accounts are **not** eligible for protection by the Securities Investor Protection Corporation (SIPC).

**All of your deposits with the Bank (including cash swept through eligible UBS accounts and any certificates of deposit you own), will be aggregated for purposes of the FDIC coverage limit. If you have more than one Account that sweeps to the**



**Bank, the amount deposited at the Bank may exceed the amount covered by FDIC insurance (currently \$250,000 per insurable capacity). You are responsible for monitoring the total amount of deposits that you have with the Bank to determine the extent of FDIC deposit insurance coverage available to you.** Please refer to the Program Disclosure for more detailed information regarding the Deposit Sweep Program and FDIC insurance. You may obtain a copy of the brochure by contacting your Financial Advisor. It is also available at [ubs.com/accountdisclosures](https://ubs.com/accountdisclosures).

#### **Interest rates for UBS Bank USA Deposit Accounts**

Interest rates on the Deposit Accounts are tiered (Interest Rate Tier), based on your total eligible Marketing Relationship as defined in the “General Terms and Conditions” of the Agreements and Disclosures booklet, which is available at [ubs.com/accountdisclosures](https://ubs.com/accountdisclosures) or by requesting one from your Financial Advisor.

#### **Funds remaining in your current Money Fund**

Funds in your money market fund sweep option on the effective date will **not** be transferred to the Deposit Accounts unless you direct your Financial Advisor to do so.

Withdrawals from your Advisory Account will be satisfied from investments in your remaining money market fund sweep balances until they have been depleted fully. After your money market fund sweep balances are depleted, withdrawals from your Advisory Account will be satisfied from funds in your Deposit Accounts.

#### **Institutional Money Market Fund Options and Automatic Exchanges:**

We may choose to offer institutional money market funds as a sweep option for non-retirement/non-IRA clients who meet certain asset thresholds. If you qualify, and cash in your Advisory Accounts sweeps to Deposit Accounts as described above, an institutional money market fund will be designated as the sweep option for amounts exceeding the Cap. The fund will be the primary sweep option for Advisory Accounts that qualify but that do not sweep to the Bank unless you select a different fund. Once available cash in your Account starts sweeping to the institutional fund, there will be an automatic exchange of your investments in other money market fund sweep options in that Account for investments in the institutional fund.

#### **Alternatives to the Bank Deposit Program**

Investors with taxable accounts may select a tax-advantaged money market funds as the sweep option as an alternative to the Bank Deposit Program. State-specific municipal funds are intended for **residents of those states only**. The Puerto Rico Short Term Investment Fund, Inc. is offered exclusively to Puerto Rico residents.

- For more complete information about any of the tax-advantaged money market funds, including all charges and expenses, please contact your Financial Advisor for a prospectus or go to [ubs.com/sweepyields](https://ubs.com/sweepyields). Read the prospectus carefully before you invest or send money.
- **Sweep vehicle for NRA clients—International Deposit Account (IDA).** Cash held in Program accounts of clients who are non-resident aliens (NRA) of the U.S.—whether temporarily as part of an asset allocation strategy or otherwise—is automatically swept into a demand deposit account at the New York Branch of UBS AG (UBS NY), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (or IDA) at the Cayman Islands Branch of UBS AG (UBS Cayman). The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and is thus temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** For more detailed information on the IDA for NRA clients, please see the (International Deposit Account Sweep Program Disclosure Statement.)
- **Sweep vehicle for Puerto Rico residents:** The Puerto Rico Short-Term Investment Fund Inc. is available as a sweep option only for customers who hold accounts with UBS Financial Services Incorporated of Puerto Rico and who are Puerto Rico residents, as defined in the fund’s prospectus. UBS Financial Services Incorporated of Puerto Rico is a subsidiary of UBS Financial Services Inc.

The Puerto Rico Short-Term Investment Fund Inc. is not a money market fund registered under the U.S. Investment Company Act of 1940. Because it does not comply with rules applicable to U.S. registered funds, it may present a higher degree of risk than U.S.-registered money market funds. The fund is sold

by prospectus only; it is not FDIC-Insured; it is not bank guaranteed; and it may lose value. UBS Asset Managers of Puerto Rico, a Division of UBS Trust Company of Puerto Rico, serves as investment advisor to the Fund. See the Fund’s prospectus for additional information.

For more information about these funds and sweep options please contact your Financial Advisor for a copy of the prospectuses. If your sweep option changes as a result of your Advisory selection, the prospectus will be sent to you as part of your welcome package when we confirm that your account has been accepted.

Other sweep options may be available, and you should discuss your options with your Financial Advisor. You may also choose to maintain any cash component of an asset allocation strategy outside of your UBS Advisory Accounts.

**Important information about your sweep options for PACE investments only**

PACE is an asset allocation program that is fully invested and does not have a cash sweep feature. However, since your PACE investment is held within a UBS brokerage account (e.g., RMA, basic investment account, etc.), available cash balances in the brokerage portion of the basic investment accounts and RMAs accounts are automatically swept to UBS Bank USA bank deposit accounts in accordance with the terms of your brokerage account agreement which differ from those available to Advisory Accounts.

**You should review the UBS Deposit Account Sweep Program Disclosure Statement carefully before selecting sweep options for your account.**

You should also note the following:

- We are a member of the Securities Investor Protection Corp. (SIPC). SIPC provides protection for securities in your accounts with us up to \$500,000, including \$250,000 for free cash balances in the unlikely event that we fail financially. For details please see [www.sipc.org](http://www.sipc.org). The SIPC asset protection limits apply, in total, to all accounts that you hold in a particular capacity. Interest in the sweep money market funds are not bank accounts and are not protected by the FDIC. However, balances in those funds, are covered by both the SIPC as well as the excess SIPC insurance that we have obtained for the benefit of our clients. **See the Account Information Booklet and the Disclosure Statement for more information regarding SIPC protection.**

- UBS Bank USA, UBS AG and UBS may receive substantial financial benefits for activities related to the deposit accounts.

Please see the UBS Financial Services Inc. Deposit Account Sweep Program Disclosure Statement for details.

**C. Billing Practices**

The billing process described below is subject to change upon prior written notice to you.

**1. Relating Accounts for Billing Purposes**

You may choose to have two or more eligible Advisory accounts treated as related accounts for purposes of taking their assets into consideration in order to calculate the Program Fee. This means that all eligible assets in those accounts will be considered together when determining breakpoints if applicable, in the fee schedule or for those accounts that are subject to minimum fee requirements, whether the minimum fee applies. If the minimum fee applies, each account will be billed its proportional share based on that account’s eligible assets. The ACCESS, Managed Accounts Consulting, Portfolio Management Program and Managed Portfolio Programs offer the flexibility to negotiate either a flat-fee or a tiered (break-point) fee schedule. Relating Advisory accounts can provide the opportunity for price reductions at certain breakpoints. If you choose a break-point fee schedule for your Account, you should review and consider the potential benefits of relating advisory accounts. Please contact your Financial Advisor for more information on the definition of eligible accounts and the forms needed to choose this billing option. Retirement Accounts may not be linked where a prohibited transaction under ERISA or the Internal Revenue Code may result.

**2. Minimum Annual Fees**

Effective May 2, 2011, our Programs do not impose a minimum annual fee. The annual minimum fee for accounts opened prior to that date will continue in effect. Those fees were as follows:

ACCESS:	Equities/Balanced: \$2,800, or 2.80% of your account value, whichever is less
	Fixed Income: \$1,250, or 1.25% of your account value, whichever is less
MAC	Equities/Balanced: \$2,050, or 2.05% of your account value, whichever is less
	Fixed Income: \$900, or 0.90% of your account value, whichever is less.



The minimum fee will be imposed in your account if the total fee you negotiated is less than the required minimum annual fee for the program.

### 3. Initial Program Fee

We will deduct your Initial Program Fee from your Account when your account is accepted for the Program. The fee will be calculated based on the value of the eligible assets on the date your account is accepted, pro-rated to cover the period from the date your account is accepted through the end of the calendar quarter. However, if the Account is opened in the last 3 business days of the calendar quarter, billing includes those days plus the next full calendar quarter. Thereafter, the fee will be based on the value of your Account on the last business day of each calendar quarter. Fees for the next calendar quarter are due the following business day.

### 4. Quarterly Fee

After the assessment of the initial Program Fee, your subsequent Program Fees will be assessed quarterly based on the net asset value (i.e., fair market value of the eligible assets including dividends and, where applicable, accrued interest, the value of options and margin loans) in the Account on the last business day of each calendar quarter. Fees will be charged directly to your account in the month following the close of a calendar quarter unless you have either designated another eligible UBS account to pay the Program Fee or elected to have your fee invoiced to you (non-IRA qualified plans only). Your fee is an annual percentage of your account assets—and you will pay the fee quarterly in advance, pro-rated according to the number of calendar days in the billing period.

Account statements display a total account value less any margin loans or short options held in your Account. Because the billing calculation does not deduct the value of margin loans and short option positions, the amount on which we calculate your fee is higher than the account value displayed on your account statement. For example:

- If you have \$1,000,000 in assets and use a margin loan to purchase an additional \$50,000 the billable account value will be \$1,050,000. The statement value will be \$1,000,000.

Below is an example of how an annual fee for an account would be calculated:

Quarterly fee = Account Value x Annual Fee % x (Billing days/Number of Days in the Year)

For example:

- A typical second quarter period begins on April 1
- Possible account net asset value on March 31 = \$100,000 (or the last business day of the first quarter)
- The annual fee percentage = 2.8% (the maximum fee in our ACCESS program)
- Billing days = 91 (i.e., April 1 – June 30)
- The quarterly fee = \$100,000 x 0.028 x (91/365) = \$698.08.

**Contributions and Withdrawals.** Additional cash and eligible assets deposited into your account within a billing period will be charged a prorated fee based upon the number of days remaining in that period, regardless of whether or not those assets remain in the account until the end of the quarter. **No fee adjustments will be made for withdrawals, repayment of borrowed funds, or for account appreciation or depreciation within a billing period.** We waive additional fees if the difference between the deductions and credits during any one period is less than \$25. Net credits or debits assessed will be due and payable on the first business day of the following quarter. Any credits to your account will be made within the first two weeks of the quarter.

Consider the following example:

- If you maintain an account balance with a \$100,000 from December 31 through March 31, you will be charged a quarterly fee covering the program's Advisory services for that period
- You might choose to deposit \$50,000 in additional eligible assets into your account during that quarter (i.e., any time between December 31 and March 31)
- If you chose to deposit additional funds on February 15, for example, we would apply a prorated fee on the additional \$50,000 to cover our services for February 15 through March 31
- However, if \$50,000 were withdrawn from the account, you would not be entitled to a prorated refund for the rest of the quarter
- **In light of this, if you anticipate making periodic contributions and/or withdrawals from this account, you should carefully consider the impact such a practice can have on the overall fee**

### For PACE, Managed Portfolio of Funds and Mutual Fund Discretionary Clients:

Each time that you purchase or redeem shares of a Fund or Select Portfolio in PACE or make cash deposits or withdrawals in Managed Portfolio of Funds or Mutual Fund Discretionary Program Accounts, we will calculate a fee credit that will apply to the amount you withdrew. This credit amount will be pro-

rated based on the time remaining until quarter's end. In calculating an additional fee during a quarter, deductions and credits may offset each other.

### **Billing Practices in the UBS Strategic Wealth Portfolio program (SWP)**

The Strategic Wealth Portfolio Program has a "Blended Program Fee" that includes:

- A UBS consulting fee that is applicable to all assets in the Account
- A fee for the portfolio management services of the SMA Managers you have selected for the discretionary portion of your account

Fees for your sub-accounts and SMA Managers will vary depending on the strategy selected. Please consider the following information about fees and discuss any questions with your Financial Advisor:

- Because each sub-account may be subject to different fees, your Blended Program Fee will change depending on a variety of factors—including, the value of the assets in each sub-account, market movements, your contributions and withdrawals, any changes to your allocation or the selection of new SMA Managers. As a result, **the Blended Program Fee may be more or less than the Blended Program Fee shown in your account application.** Changes to your Target Allocation and/or investments will be confirmed to you in writing.
- **The Initial Program Fee for the Strategic Wealth Portfolio program will be calculated based on the Target Allocation you selected (even if the Target Allocation is not fully implemented at that time) and the value of the assets on the date your account is accepted.** Thereafter, the blended Program Fee will be based on the actual allocation across sub-accounts on the last business day of each calendar quarter and will cover the next calendar quarter. However, if your account is pending rebalancing at or about the time the Program Fee is calculated, the blended Program Fee will be based on the current Target Allocation. If sufficient funds are not available in your Account to cover the fee, then assets from each asset category in your account will be liquidated to pay the portion of the fee attributable to that asset category. Bear in mind that your Target Allocation may not be fully implemented when you initially open your account or if you happen to reallocate your assets, for reasons that include the time lag in receiving proceeds from transactions or a lack of funding to completely fund multiple SMA Managers. See the section "Account Requirements

*and Types of Clients—Funding Your Account—SWP Program: Funding Multiple Investment Managers" for additional information.*

**Debiting/Invoicing Program Fees.** Program Fees are debited from your account unless you have designated another one of your eligible UBS accounts to pay the Program Fee, or you have chosen to have your fee invoiced. Payment of your Program Fee will be reflected on your monthly account statement. If you direct us to automatically debit your Program Fees from another UBS account, at the time billing is processed, we will confirm that your other UBS account has sufficient funds to cover your Program Fee. If that account does not have sufficient funds, we will debit your investment Advisory Account for those fees. IRAs and ERISA Qualified Plans can not pay the managed account fees for another account.

Qualified employee benefit plans may choose to be invoiced for the Program Fee by directing us to do so in writing. Payment will be due within 30 days of the mailing of the invoice. If the fee is not received within 30 days, the account may be debited. **An IRA may not elect the invoice feature.** From time to time and in our sole discretion, however, we may make the invoicing feature available to select IRA accounts for the invoicing of the Program Fee.

**MAC SMA Manager Fee:** When requested by the SMA Manager and authorized by you, the SMA Manager's fee will be deducted directly from your account. Otherwise, the SMA Manager will bill you directly.

**PACE and Mutual Fund Discretionary Program Fee Payment Hierarchy.** You may choose to have your PACE or Mutual Fund Discretionary Program Fee paid from assets within your Mutual Fund Discretionary, PACE investment or from non-Mutual Fund Discretionary or non-PACE participating assets that are held in your brokerage account. **The Mutual Fund Discretionary and PACE program automatically defaults to deducting your Program Fee out of your non-Mutual Fund Discretionary or non-PACE assets unless you instruct us otherwise.** Payments from your **Mutual Fund Discretionary** or PACE assets will be processed by either selling shares of PACE Money Market Investments. If sufficient funds are not available, then Program Assets in your account will be liquidated by selling shares of the mutual funds or Multi Funds/Select Portfolios in your account. The specific order (i.e., first to last) for redeeming shares for this purpose is listed below. Sales will be made first from the largest fund position in the first asset category.

**PACE Select Advisors:** (1) PACE Money Market; (2) Intermediate Fixed Income; (3) Strategic Fixed Income; (4) Government Securities Fixed Income; (5) Municipal Fixed Income; (6) High Yield; (7) Large Cap Value; (8) Large Cap Growth; (9) Small/Medium Cap Value; (10) Small/Medium Cap Growth; (11) REITs; (12) International Equity; (13) International Emerging Markets; (14) International Fixed Income; (15) Alternative Strategies

**Mutual Fund Discretionary and PACE Multi Advisor:**

1. PACE Money Market
2. Short/Intermediate Taxable Fixed Income
3. Long Term Taxable Fixed Income
4. Short/Intermediate Municipals
5. Long Municipals
6. U.S. Fixed Income – Other
7. Fixed Income – Other
8. High Yield
9. All Cap Equity
10. Large Cap Equity
11. Medium Cap Equity
12. Small Cap Equity
13. U.S. Equity – Other
14. REITs
15. Global Equity
16. Non U.S. Equity – Developed Markets
17. Non U.S. Equity – Emerging Markets
18. Non U.S. Equity – Other
19. Equity – Other
20. Global Fixed Income
21. Non U.S. Fixed Income
22. Balanced
23. Global Balanced
24. Non U.S. Balanced
25. Balanced – Other
26. Alternative Strategies – Equity
27. Alternative Strategies – Fixed Income
28. Alternative Strategies – Both
29. Other
30. Commodities
31. Precious metals
32. Energy

If you instruct us to deduct the Program Fee from non-**Mutual Fund Discretionary** or non-PACE assets, we will do so by debiting first any available cash or non-**Mutual Fund Discretionary** or non-PACE eligible money market funds in your brokerage account. If sufficient funds are not available, we will debit the fee from the **Mutual Fund Discretionary** or PACE assets as indicated above.

**Debit balances in your accounts**

We charge interest according to our firm's usual credit practices if payment of the Program Fees results

in a debit balance in your account. These charges may include:

- Compound interest
- Increases in interest rates that reflect adjustments in the base loan rate (as defined in our Statement of Credit Practices)
- Charges to cover the cost of the firm's facilities and extra services

Payment of the fees and any interest may be made at any UBS office. Please refer to the enclosed UBS Statement of Credit Practices for more information.

**Offsets, Credits and Rebates and Billing Exclusions Available in Certain Programs**

**12b-1 Fees and Revenue Sharing Offsets for Retirement Accounts in Discretionary Programs.**

In Discretionary Programs, your UBS Portfolio Manager may select mutual funds that charge 12b-1 fees for the management of your Account and may also invest in institutional shares or fee-based share classes that do not charge a 12b-1 fee. We will reduce your Program Fee by the amount of any trailers or 12b-1 fees associated with those mutual fund investments in your Account. We will deposit the 12b-1 fees and trailers into your Account to reduce your Program Fee. **If the credits remain in your account at the time of billing, they will be subject to the asset-based fee charged to your account.**

**PACE Select Plan Rebates.** For a client that is a Plan or IRA we will rebate to the Plan or IRA a part of the Program Fee in an amount equal to, for each Select Portfolio in which the Plan's assets are invested, (A) the average daily balance invested in a Select Portfolio for the period multiplied by (B) the reduction factor specified below, multiplied by (C) a fraction, the numerator of which is the number of days in the period for which the PACE Select Advisor Fee (as defined below) is being assessed and the denominator of which is the actual number of days in that calendar year. The "reduction factor" varies among the Select Portfolios and is based on the amount by which the investment Advisory fees paid to UBS Global Asset Management (Americas) Inc. ("UBS Global AM") by the Select Portfolios (the "PACE Select Advisor Fee") exceeds twenty basis points (0.20%) after payment by UBS Global AM of the fee to that Select Portfolio's sub-advisor(s). In the event that: (i) UBS Global AM waives some or all of the PACE Select Advisor Fee or other expenses paid to it by a Select Portfolio, these rebates and reduction factors may be reduced or eliminated; and/or (ii) UBS Global AM receives any expense recoupment from a Select Portfolio, these rebates and reduction factors may be increased.

**Transferred Mutual Funds Shares.** You may have previously purchased mutual funds with upfront sales charges through UBS. If you decide to transfer those mutual fund shares to your Advisory accounts, we will exclude those shares from the Program Fee for up to 12 months after you initially purchased them. See section *“Account Requirements and Types of Clients—Mutual Fund Share Classes Available in the Programs—Transferring Mutual Fund Shares into Your Advisory Accounts”* for more information.

**Billing on Cash and Cash Equivalents in Your Strategic Advisor, UBS Managed Portfolio and PACE Accounts.** Cash and cash equivalents—including money market funds and PACE holdings in the PACE Money Market Funds—are subject to the Program Fees. In Strategic Advisor, UBS Managed Portfolio Program and PACE, we limit the amount of cash and cash equivalents that are subject to the fees in those programs to 30% of the total eligible asset value, beginning with the third consecutive billing event your account is above the threshold.

#### **D. Trading and Execution Practices**

This section is a general summary of our execution practices as they relate to brokerage and Advisory accounts. You should note that in order to comply with principal trade restrictions, orders for most of our advisor programs are routed for agency execution. Where permissible by applicable law, and after complying with applicable regulatory requirements, we may route orders for our Advisory clients for execution as principal.

If your account is managed by a third-party investment manager, your manager is solely responsible for meeting its best execution obligations to you, and you should review carefully the manager’s trading for your account. UBS does not analyze or evaluate whether your manager is meeting its best execution obligations on trades executed for your account.

All trading in your Accounts is at your risk. Accounts are subject to a variety of market and other risks, including illiquidity and volatility. Investment performance of any kind can never be and is not guaranteed—nor is past performance an indicator of future results. In executing transactions for your Accounts, we will not be liable for losses caused directly or indirectly by government restrictions, exchange controls, exchange or market rulings, suspension of trading, acts of war, strikes or other conditions beyond our control, including but not

limited to, extreme market volatility or trading volumes.

#### **Execution of transactions for your account**

We use automated systems to route and execute orders for the purchase and sale of securities for all Advisory accounts, unless you direct us otherwise. Generally, an order is routed to an execution center that we believe will provide the best execution. Certain large orders that may require special handling may be routed to a market center for execution via the telephone or in the case of large ETF orders, an Authorized Participant for that ETF. We regularly monitor existing and potential execution venues and may route orders in exchange listed or OTC securities to other venues if we believe that such routing is consistent with best execution principles.

In determining the best way to execute an order for a client, we evaluate the following:

- The speed and certainty of execution
- The price and size improvement
- The overall execution quality

#### **Exchange-listed securities, NASDAQ and OTC securities**

The vast majority of our exchange-listed securities and over-the-counter (OTC) orders are executed through our affiliate, UBS Securities LLC—which executes orders as either principal or as agent, depending on the circumstances and type of program involved. These orders will be executed by UBS Securities LLC as principal when there is an opportunity for execution at a price equal to or superior to the price quoted on the primary exchange. If that is not the case, the order will be routed immediately to the primary exchange for execution. UBS Securities LLC may have a profit or loss when executing orders as principal. For orders requiring agency execution, UBS Securities LLC routes the orders to unaffiliated market makers for execution. In some instances, however, for certain securities, we place OTC orders directly with unaffiliated market makers for execution. All routing decisions are in accordance with the principles of best execution.

If we (or another investment manager managing the portfolio) execute securities transactions through other broker-dealers, we may choose brokers who provide us with research services if the commissions charged by these broker-dealers are reasonable in relation to the value of the brokerage and/or research services. If your account is a commission-based account, you may pay higher commissions if we obtain research in this manner. We do not try to place specific dollar value on the research or brokerage services of any broker-dealer or to

allocate the relative costs or benefits of research, because we believe that the research we receive is beneficial in fulfilling our overall responsibilities to clients. Accordingly, research received for a particular client's brokerage commissions may not be used for that client's account or may be useful not only for that client but for other clients' accounts as well. Similarly, clients may benefit from the research received for the commission of other clients.

### **Aggregation of trades for Advisory clients**

We may aggregate transactions for Advisory clients for execution under appropriate circumstances. This practice will not ordinarily affect or otherwise reduce fees, commissions or other costs charged to clients for these transactions but may provide price improvement. Partial fill of a block security transaction may be allocated among Advisory clients' accounts randomly, pro rata, or by some other equitable procedure adopted by the investment manager. In certain cases, investment managers may use a computer system that allocates purchases and sales transactions either on a random or pro rata basis. In any case, clients may pay higher or lower prices for securities than may otherwise have been obtained.

### **Payment for order flow**

At this time, we have determined not to direct the order flow from our Advisory programs to specific destinations in exchange for payment for that order flow. Payment for order flow is defined to include any monetary payment, service, property or benefit that result from remuneration, compensation or consideration to a broker-dealer from another broker-dealer in return for routing customer orders to that broker-dealer. We may route orders to electronic communication networks (ECNs) or similar enterprises in which we may have a minority ownership interest. If we direct orders for our Advisory programs accounts to such a trading network, we may receive indirect compensation from the ECN with respect to these trades due to our ownership interest. These arrangements will not cause you to pay additional fees directly to us. We believe that, in the course of executing trades for our clients, we may be able to obtain best execution through other exchanges or trading networks. We may direct order flow for these programs to trading networks in which we have an interest in the future if we determine that it is in the interest of our clients and consistent with our obligations under applicable laws.

### **Best execution**

In ACCESS, SWP and our discretionary programs, we provide all managers in the programs with proprietary trading systems to administer, maintain, reconcile

and place trades with UBS for accounts managed in those Programs.

In MAC, we provide only certain SMA Managers with a proprietary trading system or establish electronic connectivity to their own trading system in order to administer, maintain, reconcile and place trades with UBS for accounts managed in the program. Many MAC eligible managers trade through our branch offices and place trades directly with the Financial Advisor for your MAC account.

Regardless of the program or trading system used for investing, your SMA Manager has the option to trade through us or with other financial institutions, in accordance with the manager's obligation to achieve best execution on all trades for your account. Although use of our proprietary trading system is not required for a manager to participate in our programs, the system makes it easier, and therefore encourages, a manager to place trades for program accounts with UBS instead of with other financial institutions. SMA Managers typically will place transactions through UBS on an unsolicited basis, as your SMA Manager deems appropriate.

Your Program Fee covers the costs of trades executed with UBS but not the costs of trades executed elsewhere. We refer to trades on which we are not the executing broker as "step out trades." These transactions are generally traded from broker to broker and are usually cleared net, without any commissions. However, under certain circumstances, you may be assessed other trading related costs in addition to your Program Fee, if your manager trades with another firm. For this reason, your SMA Manager may find that placing trades with UBS is often the most favorable trading option for you. However, your manager may direct transactions to other broker-dealers (for additional fees or sometimes, commissions) if your manager decides that its best execution obligations so require. Some managers have historically directed 100% of their trades to outside broker-dealers.

**Your SMA Manager is solely responsible for meeting its best execution obligations to you, and you should carefully review the manager's trading for your account. UBS does not analyze or evaluate whether your SMA Manager is meeting its best execution obligations on trades executed for your account.** See the description of our execution and order routing practices above.

### **Non-discretionary transactions in the SWP program**

All account changes, including transactions in Non-Discretionary assets, are subject to a systematic administrative review to ensure consistency with your Target Allocation. We will also ensure that any required paperwork is complete. As a result, transactions are not executed until after the administrative review is completed and allocation changes may take several days to fully implement as set forth in the Advisory Relationship Agreement. Accounts with non-daily traded alternative funds may experience additional delays. Because prices fluctuate during the trading day, the prices you receive at the time the orders are executed may be better or worse than the prices at the time you authorized the changes to your account.

### **E. Closing your Advisory Accounts; Terminating your Agreement**

The Advisory Relationship Agreement is effective when it is accepted by UBS. We will send you confirmation of our acceptance and provide you with a copy of our Form ADV Disclosure Brochure. You may cancel that Agreement within five (5) business days from the day it is accepted by UBS and receive a full refund of Program Fees. Thereafter, either we or you may terminate the Advisory Relationship Agreement at any time. Each time you establish a new Advisory account with us, you may terminate that account and receive a full refund of Program Fees within five (5) business days from the day we send you confirmation of your instruction. Closing one or more of your Advisory Accounts does not terminate the Advisory Relationship Agreement if you continue to have other types of Advisory Accounts with us. You may terminate the Agreement only by notifying us in writing. In addition, the Agreement will terminate if we receive instructions to deliver all your Advisory assets to another firm, effective promptly after receipt of those instructions.

For MAC clients, termination of the Agreement with UBS does not result in the termination of your agreement with your MAC investment manager. You are responsible for terminating your agreement with the MAC investment manager and we do not assume responsibility for notifying the investment manager.

We will notify you in writing of our decision to close any or all of your accounts. We may close your accounts in our discretion, including if you fail to adhere to program requirements.

**Ending your participation in these programs as well as our Advisory relationship is effective promptly after receipt and processing of your request. Requests to terminate your participation in a program (i.e., closing an account) may be made in writing or verbally to your Financial Advisor.** We will confirm your instructions in writing and notify you when we have terminated you from the program and/or closed your account.

Upon termination, you are responsible for the assets in your account, and neither we nor your SMA Manager will have further obligations to act or advise with respect to these assets.

### **Automatic Liquidation of Certain Assets at Account Termination**

Closing your Advisory account will result in the sale of your assets held in the UBS Money Market Funds in instances in which your underlying brokerage account is eligible to use the UBS Bank USA as a sweep option or if the cash in your Advisory account is swept into a money market fund that is available exclusively in Advisory accounts.

In certain cases, your assets may be invested in securities, special mutual funds or shares of mutual funds that have been created for use or are eligible exclusively within wrap fee Advisory programs. Most of these investments contain restrictions that limit their use exclusively in wrap fee Advisory programs, and may be unavailable for purchase or holding outside of wrap fee programs. When you end your participation in those strategies, for any reason, that termination results in the **automatic redemption** of such shares or investments held by or on your behalf—which will have tax consequences for you. When you select one of these types of strategies or investments for your portfolio, you agree to the automatic sale of the investments upon termination of your account, and you direct us to execute these sales. We recommend that you consider the potential impact of such sales and restrictions carefully before participating in these types of strategies.

### **Mutual Fund Discretionary and PACE Program:**

Upon termination of your participation in the Mutual Fund Discretionary program and PACE, the PACE Money Market Fund will be automatically sold. Unless you direct us to sell your other holdings, all other assets will continue to be invested in the existing positions and will be held in a brokerage account.



**Transactions in your Accounts Prior to Receipt of your Termination Request:** We are not responsible to you for the purchase or sale of a security by your SMA Manager or your UBS Portfolio Manager prior to our receipt of your request to close your Advisory account. Any transactions initiated by your SMA Manager and/or your UBS Portfolio Manager on the day your account is closed will be processed, if practicable.

**Liquidation Requests:** As part of your instructions to withdraw from the program, you may request us to liquidate your securities. If you select or discontinue use of an SMA Manager without consulting us, you are solely responsible for that decision. We do not restrict your access to the SMA Managers during the selection process or thereafter.

We will liquidate the securities held in your Program account if you specifically instruct us to do so when you tell us to close your account. Liquidation of your account will depend upon market conditions at the time and, absent unusual circumstances, generally will be processed by the end of the next business day after instructions have been received by us. However, certain managers may take longer to liquidate securities for terminated accounts, including high yield securities, convertible securities and other less liquid securities.

If we are unable to obtain an agency bid on small bond or illiquid fixed-income positions, after a number of attempts, we will seek to sell the position on a principal basis if a bid is available. This will allow us to comply with your liquidation request in an expeditious manner.

Security sales will be executed free of commission charges. Trade confirmations for liquidating transactions executed on an agency basis (i.e., by a third-party on behalf of UBS) will be sent to you monthly or “bulked” if you selected that option for your account.

If your Account includes securities with limited liquidity or redemption schedules, such as alternative investments, we may be unable to sell those securities upon your request. When processing your liquidation request in such cases, we will sell readily marketable and otherwise unrestricted securities in your account, leaving any securities that we are not able to sell in your account. Once the account is closed, you may have to wait for specific liquidity windows and process your liquidation request through procedures that are specific to the illiquid investment you own.

You should note that terminating your account will end our investment Advisory relationship with you as

it pertains to that account and will cause your account to be converted to and designated as a brokerage account only. Your Investment Advisory Relationship Agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.

Closing your account will not affect your obligation to pay balances due on the account.

**Estate Administration Instructions:** Upon our receipt of notice of your death, we will cease management of the Account without liquidating the investments. Your account will no longer be enrolled in the Program while instructions from a court appointed executor/administrator regarding the disposition of your assets is pending. However, for trust accounts, the death of a trustee—including the settlor/trustee of a revocable living trust—will not result in termination unless the substitute fiduciary/trustee requests termination. For the MAC program, we do not assume responsibility for notifying the MAC SMA Manager of the client’s death and we do not require the SMA Manager to follow any particular procedures.

**Program Fees for Closed Accounts:** Upon termination, a pro-rated refund of any prepaid fees will be made or, if no fees have been paid, a pro-rated fee will be billed. If you provide liquidation instructions when you terminate your Account, the refund will be processed from the day after liquidations are complete which is generally, depending on market conditions, two to three business days after receipt of your request.

**Margin.** For accounts with strategies that use margin, we may, at our discretion, choose to cover all existing short positions when you close your account. Those liquidations will be executed in our capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis in your Account. Upon termination, you are responsible for monitoring the securities in your account, and neither UBS nor your SMA Manager will have any further obligation to act or offer advice with regards to those assets.

**Brokerage relationship.** When you close your Advisory account, our investment Advisory fiduciary relationship with you as it pertains to that account ends and the account will be converted to and designated as a brokerage account only. The Advisory Relationship Agreement will no longer apply to that account and it will be governed solely by the terms and conditions of your brokerage account agreement.



## Item 6. Portfolio Management Selection and Evaluation

### A. Selecting an SMA Manager; Our Investment Manager Evaluation Process

#### Manager Research Process

We select investment managers and strategies to participate in UBS programs in order to offer our clients the choice among a range of investment styles and products, such as:

- Value
- Growth
- Growth and income
- Income
- Contrarian
- Tactical asset allocation
- Strategic asset allocation (through multi-style accounts)
- Municipals
- Global
- International
- Convertible bonds
- Long/short investing
- Real estate investment trusts (REITs)
- Preferred Securities
- MLPs

Our Manager Research Group conducts a thorough review process of each SMA Manager that participates in our UBS researched programs. This process is described in further detail in our brochure, **Selecting an Investment Manager: the Manager Research Process**. The review process is carried out by experienced investment professionals who specialize in specific asset classes and types of investment strategies.

The Manager Research Group first identifies a pool of potential candidates by using public and proprietary databases and industry contacts of the Manager Research Group or others at UBS (including Financial Advisors). We also consider those investment managers who approach the Manager Research Group directly on an unsolicited basis. General screens such as assets under management portfolio manager longevity investment style and risk-adjusted performance are often used to narrow the initial pool of candidates.

As of the date of this brochure, our selection procedures include an examination of performance, performance drivers, investment philosophy and process, and typically includes interviews with portfolio managers, principals

and key staff members, a review of trading practices and portfolio performance, and other criteria. We may also use third parties to help gather and analyze information used in the review process. We review SMA Managers on a periodic basis to confirm and validate our earlier conclusions. That process may include contact with the portfolio managers and key staff members as well as ongoing performance monitoring.

Some SMA Managers in turn, delegate their management responsibilities to affiliated and non-affiliated sub-advisors. All SMA Managers and associated strategies in our programs and their sub-advisors, with the exception of those managers categorized as Managed Accounts Consulting (MAC) Eligible, are subject to the initial and ongoing due diligence process.

We provide different levels of SMA Manager due diligence in our MAC program. The level of due diligence we undertake varies depending on whether the manager is in our researched list and approved for use in the UBS programs or available as MAC Eligible.

#### MAC Eligible Investment Managers

Unlike the MAC researched universe of SMA Managers who are subject to the review process outlined above, the MAC Eligible universe of managers is used as an accommodation for either newly recruited Financial Advisors whose clients use managers not on our researched list; or clients who wish to join the MAC program and may want to retain a previously hired manager not on the investment researched list (unsolicited managers). The Manager Research Group's review of MAC Eligible Managers is very limited in scope and does not provide enough information for us to express an opinion regarding the investment capabilities of those firms. The limited review is performed once and provides a broad overview of the manager's organizational structure and history, together with information about their assets under management, net worth and regulatory record, and is not updated. UBS does not make initial or ongoing recommendations on MAC Eligible Managers to existing and/or prospective clients.

#### Selecting an SMA Manager

Our SMA Programs and Unified Managed Accounts Program offer you the portfolio management services of a select, pre-screened group of SMA Managers. Our role is to identify managers that have been examined and deemed suitable for your needs. Your Financial Advisor will review the results of the Profile Questionnaire

with you (in the MAC program, your Financial Advisor will review the information provided in your account application with you)—after which you will select your SMA Managers for your accounts from a group of SMA Managers and model portfolios recommended by us. During your selection process, you have the option of choosing managers who may or may not be affiliated with us.

While we offer a number of different investment strategies for your wealth management needs, we do not offer every investment manager or strategy available in the marketplace. Instead, we provide you with access to those managers who have been approved by our firm and, in our professional judgment, are appropriate to help you pursue your financial goals. We cannot guarantee, however, that the managers presented will be the best available managers either in the industry or the best available managers among the managers included in our firm-sponsored programs.

**Diversification.** Unless the investment strategy you selected is identified as a fully diversified strategy, your investment in a particular strategy should only be viewed as a portion of your overall portfolio. It should not, however, be considered as a diversified asset allocation plan to investing—either overall or within a single asset class/style.

**SMA Manager Searches.** To help you select an SMA Manager, at your request, we may provide information from third party or proprietary databases regarding different managers. We do not verify or guarantee this information, including past performance information, which may not be calculated on a uniform or consistent basis. Our inclusion of an SMA Manager in the database or in the manager search report is not an endorsement or recommendation of that SMA Manager by us.

**SMA Manager Terminations from our Researched List and Program Offerings:** We retain the authority to remove any SMA Manager from our programs and from the researched list at any time. Circumstances under which we may terminate or discontinue a manager include (but are not limited to) persistent underperformance, significant departure from the SMA Manager's stated investment discipline, or material changes in the SMA Manager's organization.

**If you participate in our ACCESS, MAC, and Strategic Wealth Portfolio programs, we will notify you if your SMA Manager is terminated from the program and/or from our researched list.**

SMA Managers in our Advisory programs are asked to contribute to our overall training and education costs for Financial Advisors in our managed accounts programs. Neither contribution towards these educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether an SMA Manager should be included or should remain in our Advisory programs.

*See "Participation or Interest in Client Transactions—Additional Sources of Compensation from SMA Managers or Vendors whose products we may recommend to Our Advisory Clients—Contributions to Training and Education Expenses."*

### **Standards Used to Calculate Portfolio Manager Performance.**

**Performance Composites.** We may make available descriptive profiles of selected investment strategies that include past performance information. Profiles are not available for every Portfolio Manager, SMA Manager or strategy available in the Programs. We may also include manager performance, including their performance history prior to joining our programs, in various program proposals and profiles.

We believe that composite performance information is meaningful. Composites that we provide may be prepared by us, or, in the case of some SMA Managers, by the managers, or obtained from third party sources.

We calculate a strategy's composite performance based on standards drawn from industry sources—taking the following into account:

- A return calculated using a Modified Dietz formula in UBS Managed Portfolios and an asset weighted methodology in PMP and ACCESS
- Cash flows into and out of the accounts
- Monthly valuations
- Income accrued on fixed-income securities

The performance reflected in the composite information includes all accounts managed in the relevant style for at least one full calendar quarter for SMA Managers and PMP Portfolio Managers and, for at least one full calendar month, for the Managed Portfolio Programs. We do not eliminate accounts that impose restrictions, and it is possible that the composite shown reflects the performance of only one account, even if that account is restricted. For this reason, and because past performance is not indicative of future results, you should not consider the performance shown in the composite as representative of the historical performance of the manager or the performance you should expect in the

future for either a restricted or unrestricted account. Accounts will be excluded from the composite if there appears to be a discrepancy in the report or if they contain material client directed constraints.

For our SMA Managers, we calculate performance composites only for those managers offered in our ACCESS program. Some of our ACCESS SMA Managers and their strategies are also available in other programs, for example, SWP and MAC. As a result, we use these managers' ACCESS data in program profile(s) and strategy(ies) composite performance in investment proposals for those programs. For SMA Manager strategies not available in ACCESS, we use performance provided by the investment manager or by external sources.

While we believe that information provided by managers or obtained from external sources is accurate, we do not independently verify or guarantee it. Please note that we cannot assure you that any performance information provided has been calculated on a uniform or consistent basis.

**As with other investments, past performance does not guarantee or indicate future results.**

#### **1. Performance Reviews of SMA Managers, Portfolio Managers and Financial Advisors in our Advisory Programs**

We provide quarterly performance reviews for Accounts in our Programs whose assets are held at our firm. The performance reviews display the performance of your Account, Portfolio Manager and/or SMA Manager compared to certain indices. These benchmarks are shown for informational purposes only.

The comparisons relate to the historical performance of market indexes (e.g., S&P500, Dow Jones, etc.) and not the performance of actual investments. Our selection and use of benchmarks for comparison purposes is not a promise or guarantee that your Account will meet or exceed the stated benchmark.

Please note that the investment strategy in your Account(s) is not restricted to the securities in the benchmark. Also, Indexes are not available for direct investment and represent an unmanaged universe of securities that does not take into account advisory or transaction fees, all of which will reduce overall return.

#### **Benchmark Selection for Performance Evaluation:**

**SMA Programs:** We assign index benchmarks to those SMA Managers that we have researched, based on our understanding of their strategy, their investment style and our research. Those benchmarks are used for researched SMA Managers in ACCESS and SWP.

All MAC Accounts, including those managed by researched SMA Managers, are assigned broad equity, fixed-income, or a blend of both broad equity and fixed income market indexes (e.g., S&P500, Dow Jones, etc.) that are readily recognized, but cannot be used for direct performance comparisons against your Accounts and the SMA Manager's investment strategy.

As a result, you will find that the performance comparisons for researched SMA Managers will differ, sometimes significantly, depending on the Program you select, and may also differ from those presented by your SMA Managers in their materials.

**Discretionary Programs:** We also assign comparative benchmarks to the strategies managed by Portfolio Managers in our Discretionary Programs.

**Non-Discretionary Programs:** Due to the non-discretionary nature of the Strategic Advisor program, performance reviews will also illustrate the historical performance of certain broad equity and fixed-income market indexes (e.g., S&P500, Dow Jones, etc.)

Depending upon the composition of your portfolio and your investment objectives, the broad market indexes used in MAC and Strategic Advisor may not be an appropriate measure for comparison purposes, and as such, are represented for illustration only. Your portfolio holdings and performance may vary significantly from the index.

In the PACE program, performance reviews will illustrate a benchmark that is reflective of your PACE target allocation.

**SMA Managers in our SMA and Unified Managed Account Programs:** The performance of SMA Managers is part of the ongoing due diligence performed by the Manager Research Group. Performance for the SMA Managers is calculated as described above. We do not review or evaluate performance for MAC Eligible SMA Managers.

**Portfolio Managers in the PMP and Mutual Fund Discretionary Programs:** Branch Office Managers periodically review the performance of their PMP/ Mutual Fund Discretionary Programs Financial Advisors against comparative benchmarks assigned to their investment strategy.

On a quarterly basis, PMP/Mutual Fund Discretionary Program Management reviews Financial Advisors investment strategy performance against comparative benchmarks as well to ensure that strategies meet specific performance criteria. Financial Advisors who under-perform for multiple quarters within a two year period will require additional reviews of their management style to determine the Financial Advisor's continued participation in the Program, or the availability of that particular strategy.

**Portfolio Strategy Group Portfolio Managers.** The Portfolio Strategy Group continuously oversees the Managed Portfolio Program investment portfolios for many metrics, including performance. The Portfolio Strategy Group reviews investment portfolio performance against comparative benchmarks assigned to each of its investment strategies.

On a quarterly basis, the Portfolio Strategy Group presents its investment portfolio performance to the Manager Research Group so that the Manager Research Group may conduct a performance test. If the strategy has performed within established criteria, no other action is needed. If the strategy's performance is outside the established criteria, the Manager Research Group will investigate the drivers of performance. Strategies that have extended performance outside of established criteria will be brought to the attention of the Head of Wealth Management Solutions Advice and Platforms for further review and discussion to determine whether that particular strategy should continue in the Program.

**Financial Advisors in our Non-Discretionary Programs:** Given the non-discretionary nature of the PACE and Strategic Advisor programs, we do not calculate, review or publish the performance of individual Financial Advisors in those Programs. We calculate the performance of your Accounts in those Programs and provide those reviews to you on a quarterly basis.

## **B. UBS or UBS Affiliates and Employees Acting as Portfolio Managers.**

### **UBS Affiliated Managers and UBS Financial Services Inc. investment portfolios and research exceptions for proprietary strategies**

We offer the services of UBS affiliated managers, and the services of our own internal Portfolio Strategy Group, in the SMA Programs. We also offer the services of Financial Advisors as portfolio managers, and our Portfolio Strategy Group in the Managed Portfolio Program.

While we seek to apply the same review criteria to all researched managers available in our SMA and Unified Managed Accounts Programs, certain UBS affiliated strategies and UBS discretionary investment portfolios, such as the Managed Portfolio of ETFs, may not have been screened or approved as researched strategies at the time they were initially included in the SMA Programs.

For example, for our discretionary investment portfolios, while the Firm itself would satisfy the general research screens, an investment portfolio on its own, may fail to meet several research screens, including: total assets under management, length of a performance track record with client assets, and a requirement of having a minimum number of accounts that are normally imposed on third-party managers. In these cases, however, we may either research these managers subsequent to being included in our SMA Program or we may monitor them periodically to ensure that they meet specific criteria. Our Manager Research Group, which is responsible for evaluating strategies for these programs, reports into the same function as the portfolio investment team that manages the investment portfolios.

**The Manager Research process described above does not apply to our Financial Advisors participating in our Advisory Programs, our PMP/ Mutual Fund Discretionary Program Portfolio Managers or to our Portfolio Strategy Group in their capacity as portfolio managers in the Managed Portfolio Programs.**

**Education and Business Standards for Financial Advisors Participating in Our Advisory Programs.**

**Our Financial Advisors can participate in our Advisory Programs in a variety of ways:**

- **They can assist clients in the selection of strategies in the Managed Portfolio Program.**
- **They can assist clients in the selection of SMA Managers in ACCESS, MAC and SWP.**
- **They can manage assets on a discretionary basis in the PMP Program.**
- **They can assist clients with the development of asset allocations offered in the Advisory Programs.**
- **They can recommend specific securities on a non-discretionary basis in PACE, Strategic Advisor and the Non-Discretionary Assets in SWP.**

Generally, we require our personnel who provide investment Advisory services to clients to have a college degree or securities industry experience.

Most of our Financial Advisors are registered as broker-dealer and investment adviser representatives. With the exception of the PMP Program and the Mutual Fund Discretionary Program, we do not impose special requirements such as education or qualification requirements (other than the required registrations) for Financial Advisors who participate in our Programs. Some Programs require that Financial Advisors fulfill certain internal training requirements in order to undertake certain activities. For example, Financial Advisors in Strategic Advisor must complete an internal training requirement which covers the specifics of that Program as well as the requirements to undertake principal trade executions in Strategic Advisor Accounts before establishing accounts in the Program.

We will provide to you a Brochure Supplement which includes information regarding your Financial Advisor's education, business experience, disciplinary history, outside business activities, their compensation and supervision. You may also obtain information about your Financial Advisor, their licenses, educational background, employment history, and if they have had any problems with regulators or received serious complaints from investors through the FINRA BrokerCheck service available from FINRA at <http://www.finra.org>, or from the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

You can also contact your state securities regulator through the North American Securities Administrators Association's website at <http://www.nasaa.org> and request information about our firm and your Financial Advisor.

You may receive Brochure Supplements and other disclosure documents for your SMA Managers and their investment management personnel directly from your SMA Manager.

**PMP and Mutual Fund Discretionary Portfolio Manager Selection Criteria.**

Participation in the Portfolio Management Program and Mutual Fund Discretionary is granted to Financial Advisors who have met certain education, industry experience and investment management standards.

Applicants are generally required to have at least one year (for Mutual Fund Discretionary) and two years of industry experience (for PMP), meet certain client asset thresholds at UBS, and hold either the Chartered Financial Analyst designation, the Certified Portfolio Manager designation, or have completed the firm's PMP's Portfolio Management Training requirement. These requirements are waived under certain circumstances including recruitment situations where a waiver of the educational requirement is granted if the Financial Advisor has approved portfolio management credentials from a major competitor firm.

Financial Advisors are nominated for participation in the PMP and Mutual Fund Discretionary Programs by their Branch Office Managers. PMP Program Management reviews nominees and admits qualified Financial Advisors to the PMP Program based on their experience and expertise.

**Portfolio Strategy Group Portfolio Managers.** Our Portfolio Strategy Group and their strategies are reviewed by the Manager Research Group only when their services are offered in the SMA Programs. Otherwise, they are not reviewed and are not subject to special qualifications or guidelines.

Currently, all members of the Portfolio Strategy Group are FINRA licensed registered representatives who hold at least a college degree. Several members earned post graduate degrees and the Chartered Financial Analyst designation. The Portfolio Managers within the Portfolio Strategy Group have industry experience ranging from 7 years to over 21 years.

**Recommendation of Affiliated/proprietary SMA Managers, Securities and Investments:** We may, upon your request and after a review of your needs and available options, recommend affiliated/proprietary money managers or securities. Recommending proprietary or affiliated products and managers raises

a conflict of interest, because retaining those entities or purchasing those securities will result in increased compensation to UBS and/or a UBS affiliate. If you select SMA Managers, funds, products or other investment vehicles that are managed or sponsored by us or our affiliates, the management fees will be payable to either UBS or the affiliated entities. Your Account's actual investment return will be reduced by those fees, plus any related expenses and the Program Fees. Please review the applicable prospectus and offering documents carefully for a detailed description of the additional fees associated with these securities.

We address the conflicts of interest presented by the recommendation of affiliated managers and application of different research standards by disclosing our practices to you to ensure you make fully informed decisions in your selection of investment strategies.

See *"Services, Fees and Compensation—Advisory Programs—Compensation to Financial Advisors and UBS Portfolio Managers in Our Discretionary Programs"*

## C. Advisory Business

### 1. Corporate Structure

UBS Financial Services Inc. was organized as a Delaware corporation on June 30, 1969. It is a wholly owned subsidiary of UBS Americas Inc., which in turn is a wholly owned subsidiary of UBS AG. UBS AG is a publicly held company. UBS Financial Services became a registered investment adviser on January 22, 1971.

### 2. Advisory Services

The advisory services we offer are described in *Item 4 "Services, Fees and Compensation"* of this brochure. We also offer:

- **Financial Planning Services:** We offer fee-based financial planning as an investment advisory service. These services are separate and distinct from our brokerage services and other investment advisory services. Our Financial Planning Services are tailored to each client to provide a comprehensive review of client goals and financial planning topics, which may vary based on a client's level of wealth and the complexity of their planning needs. Our financial planning services do not include initial or ongoing advice regarding specific securities or other investments. For more information, please discuss with our Financial Advisor and request the Form ADV Disclosure Brochure for our Financial Planning Services.

- **Financial Education Program.** We also offer a financial education program where an employer or other sponsoring entity, such as an adult education organization, can contract with UBS-FS to have a UBS-FS Financial Advisor provide one or more of a series of financial education seminars to their employees or members (generally, but not always, at no charge to the employee or member) or to the public for a fee. Seminars can be developed in-house or purchased from outside vendors. The seminars focus on topics such as asset allocation, the definition of various asset classes, potential risks and rewards, the advantages of tax-deferred or tax-free investing, options available when receiving a retirement plan distribution and other similarly generic subject matter. Seminars offered through FEP are generic in nature and do not contain recommendations to invest in any particular security.

- **Consulting Services.** Consulting services may also be available to retirement plans, institutions and corporate clients for an asset-based fee, a fixed fee, mutual fund distribution and finder's fees or brokerage commissions, as well as a combination of a consulting fee with a brokerage offset or transaction fee. Certain services may be available for fixed hourly rates for some programs.

Consulting services may include, but are not limited to, helping a client establish or amend investment policies and objectives; assisting in an investment manager search; aiding in asset allocation modeling; providing asset/liability analysis for defined benefit plans; providing investment evaluation and education materials including enrollment seminars; determining the number and type of investment alternatives to be offered to plan participants; developing criteria to select and evaluate service providers; and providing performance evaluations. In these cases, investment decisions are made by the client.

### 3. How we tailor accounts for clients

We tailor Advisory accounts to the specific investment objectives, risk tolerance and investment preferences of our clients in the following ways:

- Investment strategies offered in our Discretionary and ACCESS programs are assigned a risk category rating. The responses to Questionnaires in each of these Programs are scored in order to determine an appropriate manager, investment strategy, or asset allocation that is within the client's stated risk profile. The risk category ratings were developed to



approximate investor expectations of risk and reward, and to reflect the preferences of a range of investors from conservative to aggressive. Investment strategies within a particular risk category may employ a variety of investment approaches, but are expected to share similar return and volatility characteristics over the long term. There can be no assurance that the stated investment objectives of the investment strategies will be realized.

- Non-Discretionary and Unified Managed Accounts Program: Our asset allocations are based on a proprietary process which offers several possible asset allocation models. As in the case of our other Programs, a client's responses to their Program Questionnaire are scored to determine an appropriate asset allocation. Clients may tailor their allocations to their needs from the recommended asset allocation by certain levels not to exceed internally determined risk bands.

Clients, with the advice of their Financial Advisors, select an investment strategy or asset allocation within their risk profile. Clients, in certain situations, may select an investment strategy one category higher or any category lower as compared to their profile. We may change this option in the future. We may also change, in our sole discretion, the number and types of asset allocation models offered in our Programs. To better personalize the investment strategy selected, clients in Programs with SMA Managers and in Discretionary Programs may impose reasonable investment restrictions on the management of their accounts. (See *"Account Requirements and Types of Clients—Investment Restrictions & Investment Policy Statements"* above.)

UBS, our Financial Advisors and Portfolio Managers receive a portion of the wrap fee you pay under the Programs. See *"Services, Fees and Compensation—Advisory Programs; Fee Schedules, Minimum Investments and Minimum Annual Fees"* for details.

#### **4. Performance Fees and Side by Side Management**

We offer our own portfolio management services and those of our Financial Advisors in our Portfolio Management Program, Managed Portfolio Program, Mutual Fund Discretionary Program and our SMA Programs.

Financial Advisors in the PMP and Mutual Fund Discretionary Programs may also have clients with

accounts in brokerage or other Advisory programs. The services and management of those accounts differ. Due to the discretionary nature of the PMP and Mutual Fund Discretionary Programs, Financial Advisors acting as Portfolio Manager should place transactions for their discretionary clients' accounts prior to soliciting the same securities in their non-discretionary advisory and brokerage clients' accounts. PMP Financial Advisors are also subject to an internal personal trading policy.

The Portfolio Strategy Group manages the discretionary portfolios in the Managed Portfolio Program. Some of the discretionary models that they manage are made available to the Firm's Financial Advisors. Financial Advisors may choose to implement the models in client accounts either on a discretionary or non-discretionary basis. As a matter of Firm policy, the Portfolio Strategy Group will execute portfolio changes to the client accounts in the Managed Portfolio Program before publishing the details of the transactions to the Firm's Financial Advisors. Members of the Portfolio Strategy Group are also subject to an internal personal trading policy.

Our wrap fee advisory programs do not impose performance fees. UBS Financial Services does not serve as investment manager to hedge funds, private equity or similar types of investment vehicles. However, as a distributor of alternative investments, including hedge funds and fund of funds, UBS receives a portion of the performance fees charged by the investment adviser to those funds. Financial Advisors who sell those alternative investments, including those investments held in Advisory accounts receive a portion of those fees.

#### **5. Methods of Analysis, Investment Strategies and Risk of Loss**

All investments carry the risk of loss. Please review the documents, profiles and investment proposals we provide to you when you establish accounts in the Programs for a description of the specific risks associated with the investment strategy you selected.

We obtain information from various sources, including:

- Financial publications
- Inspections of corporate activities
- Company press releases
- Research material prepared by our affiliates and third parties
- Rating or timing services
- Regulatory and self-regulatory reports
- Other public sources



In addition, we receive a broad range of research and information about the following:

- The economy
- Industries
- Groups of securities and individual companies
- Statistical information
- Market data
- Accounting and tax law interpretations
- Political developments
- Pricing and appraisal services
- Credit analysis
- Risk measurement analysis
- Performance analysis
- Other information that may affect the economy or securities prices

Research can be received through various channels, including:

- Written reports
- Telephone contacts and personal meetings with research analysts
- Economists
- Government representatives
- Corporate and industry spokespersons

We may receive research, model portfolios and asset allocation services generated by UBS, UBS affiliates, third parties, by or through brokers or dealers or investment advisers, including research, model portfolios and asset allocation advice purchased through economic arrangements with such parties.

Our investment Advisory services generally rely on a variety of fundamental, technical, quantitative and statistical tools and valuation methodologies. As a result of these different methodologies employed, technical or quantitative research recommendations may differ from, or be inconsistent with, fundamental opinions for the same security. We may use computer technology to more readily display these factors and to create asset allocation recommendations. Personnel involved in providing investment Advisory services may have access to specialists or other information for all major industry groups.

Our Financial Advisors and clients have access to research from UBS Wealth Management Research Americas (WMR), which is part of UBS Wealth Management Americas. WMR is designed specifically for use by private clients and our Financial Advisors. As a result, subject to certain exceptions, we expect that product areas in UBS Financial Services Inc. will incorporate insights and

economic perspectives of WMR, where appropriate, in their products and services.

Clients and Financial Advisors also have access to certain categories of UBS Investment Research (INV Research) that is issued by UBS Investment Bank. Because both sources of research reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may be a difference of opinions between WMR and INV Research. Neither source is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation, or particular needs of any specific individual investor.

### **Discretionary programs**

UBS Portfolio Managers in our discretionary programs use a variety of research sources in making their investment decisions for your account, including research issued by the firm, UBS affiliates and independent sources.

**UBS Portfolio Managers are not required to follow the firm or UBS issued research and may, in their discretion, take positions for your account that contradict the research issued by UBS and its affiliates.**

### **SMA Managers**

Managers in our Advisory programs are not required to use UBS research as the source of their investment decisions. SMA Managers participating in our ACCESS, MAC, and SWP programs may utilize various fundamental, technical, quantitative or statistical research, tools and valuation methodologies in order to determine which securities to purchase for your program accounts. They may rely on their proprietary research, and/or they may receive research from a variety of sources, including UBS or one of our affiliates, as part of their investment process. Any research that we or one of our affiliates may provide to an SMA Manager is separate and apart from our Advisory programs and does not affect or otherwise limit the manager's discretionary investment responsibility for your program account.

**You should be aware that we or our affiliates (or employees thereof) may have conflicts of interest in connection with the research reports we publish.**

UBS and its affiliates (or any of our employees) may happen to fall into any one of these categories, which could potentially create a conflict of interest:

- Holding long or short positions in a specific security being researched

- Deal as principal or agent in a specific security being researched
- May provide Advisory or other services to an issuer or their affiliate that is covered in research reports issued by WMR and/or INV Research

WMR and INV research analyst compensation is not based on investment banking revenues; however, their compensation may relate to the revenues or profitability of UBS business groups as a whole, which may include investment banking, sales and trading services.

Financial Advisors also have access to proprietary models covering equities, fixed income, mutual funds and municipal securities developed by our various business areas.

### Our Asset Allocations

Our asset allocations are based upon on a proprietary methodology. In developing those allocations, UBS considers asset class risk and return results that are based on estimated forward-looking return and risk assumptions, as measured by standard deviation ("capital market assumptions"), which are based on UBS proprietary research. The development process includes a review of a variety of factors, including the return, risk, correlations and historical performance of various asset classes, inflation and risk premium. The process assumes a situation where the supply and demand for investments is in balance and in which expected returns of all asset classes are a reflection of their expected risk and correlations regardless of timeframe. These capital market assumptions do not assume any particular investment time horizon.

UBS periodically reviews the economic or market conditions or other general investment considerations that it believes may impact the capital market assumptions. The capital market assumptions may change from time to time at the discretion of UBS. UBS has changed its risk and return assumptions in the past and may do so in the future. Neither UBS nor your Financial Advisor is required to provide you with an updated proposal based upon changes to these or other underlying assumptions. Changes in the assumptions may affect your Target Allocation on the broad, subclass or style level. We may also add or remove asset classes, subclasses and styles from the allocation methodology at any time. We will send you a written notice in the event that changes in our capital market assumptions result in a change to your Target Allocation. It is important to note that changes to your Target Allocation may result in tax consequences to you. Please consult your tax advisor if this occurs.

### Changes to the Target Allocation

UBS employs a variety of asset allocation models and tools. As a result, our modeling outside of the programs may vary depending upon the asset allocation model, amount invested and software program used for analysis.

For Programs that offer asset allocations, your Account reflects the target allocation that you have selected. Deviations from your target asset allocation will occur due to, among other things, fluctuations in the market value of securities in the account before rebalancing, any investment restrictions you impose on the account and any tax selling requested.

When we develop a financial plan for you, you may choose to include assets held at other institutions in your Target Allocation. Because these assets are not held at UBS, we will not be able to verify or ensure the accuracy of information regarding these assets. UBS does not provide advice with respect to your assets at other firms, and we will not assume any liability for your activity at other firms.

### 6. Voting of Client Securities (Proxy Voting)

Some of our programs permit you to delegate proxy voting authority to UBS or your Separately Managed Account (SMA) Manager, suppress your receipt of daily trade confirmations or, elect to permit principal trades in your account. **We ask you to provide these instructions when you establish your first Advisory account under the relationship Agreement. We will apply your preferences (where those features are available) to all Advisory accounts you establish under this Agreement, unless you provide different instructions for specific accounts.**

### PACE; Strategic Advisor; SWP Non-Discretionary

**Assets:** You expressly retain the right and obligations to vote any proxies relating to the securities held in your PACE and Strategic Advisor Accounts, as well as for your SWP Non-Discretionary Assets, but you may delegate these rights and obligations to a properly authorized agent. Neither your Financial Advisor nor UBS will exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in these Programs. We will **not** vote or provide any advice about the voting of proxies solicited by, or with respect to, legal proceedings, including bankruptcies and class actions, relating to securities in those Accounts, or their issuers, except to the extent required by law.

**SMA Programs; Discretionary Programs; SMA Managers in Strategic Wealth Portfolio:** By signing the Agreement, you designate (as relevant given your Advisory Program selection) your SMA Manager or for Discretionary Programs, UBS, to receive and vote all proxy and related materials for securities held in the Advisory Accounts they manage on your behalf. **Unless you provide different instructions, we will apply your proxy-related preferences to all Advisory Accounts you establish under this Agreement, assuming your preferences are available in each program.**

**YOU MAY CHANGE YOUR PREFERENCES AT ANY TIME BY NOTIFYING US IN WRITING.**

Your proxy-related preferences do **not** apply to class action lawsuits, legal proceedings and bankruptcy proceedings involving an issuer whose equity or debt securities are held in your Accounts, even if you delegated proxy voting authority to us or your SMA Manager. Correspondence related to such lawsuits will be mailed to you directly and will be your responsibility. Neither UBS, the SMA Manager nor your Financial Advisor will respond to such correspondence.

**SMA Accounts and SMA Managers in Strategic Wealth Portfolio:** When you delegate proxy voting authority to your SMA Manager, he or she will vote on matters requiring a proxy vote for the securities held in your Account. Your SMA Manager will also vote on other corporate actions, like tender offers, which do not require a proxy or are not solicited via a proxy.

**Limitations of our Authority:** Except for UBS Managed Portfolios, such as the Managed Portfolio of ETF strategy available in MAC, we have no authority, direct or implicit, and accept no responsibility for taking any action or rendering any advice with respect to the voting of proxies related to securities held in your SMA Account or sub-accounts. Our obligations with respect to any such solicitation are limited exclusively to forwarding, within a reasonable period of time, to your SMA Managers any materials or other information received by us with respect to such solicitation.

**Discretionary Programs:** Neither UBS, your Portfolio Manager or your Financial Advisor exercise voting discretion or have input regarding voting decisions made on your behalf for the securities held in your Discretionary Program account. We maintain a proxy

voting committee, which utilizes an independent third party to assist us in the administration, reporting and voting of proxies delegated to us. As part of their service, they provide us with voting recommendations. As a matter of policy, we instruct them to vote according to their recommendations. We will not vote or provide any advice about the voting of proxies solicited by, or with respect to, legal proceedings, including bankruptcies and class actions, relating to securities in your account, or their issuers, except to the extent required by law.

We will not vote in the following circumstances: (a) the securities are no longer held in your account; (b) the proxy or other relevant materials are not received in sufficient time to allow an appropriate analysis by the proxy service provider or to allow a vote to be cast by the voting deadline; or (c) UBS or the proxy service provider concludes that the cost of voting the proxy will exceed the potential benefit to the client. In addition, the provider generally does not make recommendations, and we will not vote proxies in respect to bankruptcies and class actions, limited partnership or bond issues, and certain foreign securities, if voting may cause the sale of the security to be prohibited under foreign law for a period of time, usually the time between the record and meeting dates ("share blocking"). Also, UBS will not vote or advise you on other corporate actions, like tender offers, which do not require a proxy or are not solicited via a proxy.

**Proxy Voting Policies:** Copies of UBS' proxy voting policies and procedures as well as those of your SMA Managers are available to you upon your request. You may also request specific information as to how proxies for your securities were voted. Some of the information, format, and period covered by the proxy reports will vary depending on the individual investment manager's policies and procedures. **Please contact your Financial Advisor regarding your requests.**

Except for ERISA Plans and Individual Retirement Accounts, if we forward proxy materials to you or your SMA Manager, as applicable given the Program you selected, but we do not receive voting instructions from you (or from your SMA Manager) within the designated time frame, we will, in our capacity as a broker-dealer and as permitted under the rules of the New York Stock Exchange, vote those securities in proportion to the voting instructions we have received from our brokerage retail clients.

## Item 7. Client Information Provided to Portfolio Managers

We share certain information you provide to us during the account opening process with your SMA Managers, Financial Advisors and Portfolio Managers in order to assist them in the management and servicing of your Account. The information we provide to them includes:

For accounts in the ACCESS and SWP Programs we provide information to the SMA Managers through a proprietary system. The information we provide includes your personal information, such as your name, address, social security number (TIN) and account type. We also provide your responses to the Profile Questionnaire and general account information, such as risk profile and account objectives, and any investment restrictions on the account. We report account activity and make trade confirmations and monthly ACCESS account statements available through our system. We also provide trade confirmations to select Investment Managers for accounts in the MAC Program. Certain account activity is also communicated through our system, including withdrawal, termination and tax harvest requests.

Our Financial Advisors and Portfolio Managers who service your Account have access to the same information as listed above. Portfolio Managers also receive copies of trade confirmations for transaction they execute in your Accounts as well as copies of the quarterly Performance Reviews for your Accounts.

For Accounts in the SWP program, the processing of requests to realize gains or losses may require us to show your SMA Managers all of the positions held in your Account even though those positions may have been purchased by another SMA Manager. You understand and consent to the release of such information for these purposes.

**Data Downloads.** To service and reconcile your Discretionary, SMA or Unified Managed Account efficiently, we automatically provide your SMA Managers or sub-advisors with copies of the confirmations for trades they place in the Accounts they manage for you, unless you instruct us otherwise in writing. Upon request by your SMA Managers, we provide copies of your monthly account statements. From time to time, your SMA Managers or sub-advisors may request that we provide them with a data download of all transactions they effected on your behalf in order to reconcile your Account. We consider your selection of the Discretionary Program sub-advisors and SMA Managers for your

Accounts and your continued participation in the program as your consent to our providing that data and copies of your account statements. You may revoke that consent at any time by contacting us in writing.

## Item 8. Client Contact with Portfolio Managers

We do not restrict your ability to contact or consult with your SMA Managers, Portfolio Managers or Financial Advisors.

## Item 9. Additional Information

### A. Executive Officers and Board of Directors

- **Robert J. McCann** is Chief Executive Officer of UBS Group Americas, Chief Executive Officer of UBS Wealth Management Americas (WMA) and a member of the Group Executive Board of UBS AG.

As regional CEO, he works closely with the business division heads in the Americas to leverage UBS' integrated platform for the benefit of individuals, corporations, institutions and governments. He is also CEO of WMA, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.

- **Rosemary T. Berkery** is Chairman of UBS Bank USA and Vice Chairman of UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.
- **John J. Brown** is a Group Managing Director for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He currently heads the Wealth Management Solutions business.
- **John Dalby** is Chief Financial Officer and Chief Risk Officer of UBS Wealth Management Americas.
- **William Frey**, is a Managing Director and Chief Financial Officer of UBS Financial Services Inc. He is also the Head of Business Accounting and Controlling for UBS Wealth Management Americas, which principally comprises the registered broker-dealer, UBS Financial Services Inc., UBS Bank USA as well as the Private Banking operation.

- **Brian P. Hull** is a Group Managing Director and Vice Chairman of UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation. He is also the Head of Wealth Management Partnerships for UBS Financial Services Inc. which comprises three units: Strategic Client Relationships, Investment Services and Client Development.
- **Robert E. Mulholland** is a Group Managing Director and the Head of the Wealth Management Advisor Group for UBS Financial Services Inc.
- **Paula D. Polito** is a Group Managing Director and Chief Marketing Officer of UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.
- **Anita Sands** is a Group Managing Director and Chief Operating Officer of UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.
- **David J. Satler** is a Managing Director and the Head of Human Resources of UBS Financial Services Inc.

#### **Wealth Management Research**

- **Mike Ryan** is a Managing Director, Chief Investment Strategist and Head of Wealth Management Research for UBS Wealth Management Americas, which comprises the registered broker-dealer, UBS Financial Services Inc., as well as the Private Banking operation.

#### **Management for the Investment Advisory Products Covered in this Brochure**

- **Michael A. Perry** is a Managing Director and the Head of Wealth Management Advice and Platforms.
- **Marilee Ferone** is a Managing Director and Head of Investment Advisory Programs & Platforms.

#### **General Counsel, Director of Compliance and Chief Compliance Officer**

- **Jonathan Eisenberg** is a Group Managing Director and General Counsel of UBS Wealth Management Americas, which includes the registered broker-dealers, UBS Financial Services Inc. and UBS Financial

Services Incorporated of Puerto Rico, as well as UBS Bank USA, UBS National Trust Company N.A., UBS Trust Company of Puerto Rico, and the Private Banking Operation which is comprised of UBS AG branches in the United States.

- **Douglas T. Siegel** is a Managing Director and Head of Compliance for UBS Wealth Management Americas, which includes UBS Financial Services Inc. and the Private Banking Operation as well as UBS Bank USA, UBS National Trust Company N.A. and UBS Trust Company of Puerto Rico. Mr. Siegel is also the Chief Compliance Officer of UBS Financial Services of Puerto Rico, Inc. a registered broker-dealer.
- **Lisa M. Francomano** is an Executive Director, Deputy Director of Compliance and Chief Compliance Officer for UBS Financial Services' advisory business.

#### **B. Disciplinary History**

Below is a summary of the material legal and disciplinary events against UBS Financial Services Inc. during the last ten years. As of the date of this brochure, there are no reportable legal and disciplinary events for our senior management personnel or those individuals in senior management responsible for determining the general investment advice available to our clients.

The disciplinary reporting requirements for broker-dealers and investment advisers differ in some ways, with FINRA requiring broker-dealers to report on matters (for example, pending complaints and arbitrations) which are not required to be reported by investment advisers. Since our firm operates as both broker-dealer and investment adviser we file the information as required by each entity. The information in this report is not the only resource you can consult. You can access additional information about our firm and our management personnel on the Securities and Exchange Commission's website, located at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov), as well as the Financial Industry Regulatory Authority's website, [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

**Please note that in each instance described below, the Firm entered into the various orders, consents and settlements without admitting or denying any of the allegations.**

	<b>Date of Action</b>	<b>Brought By</b>	<b>Allegation</b>	<b>Disposition</b>	<b>Monetary Sanctions</b>
1	Feb. 22, 2012	Pennsylvania Securities Commission	The Pennsylvania Securities Commission alleged that the Firm failed to reasonably supervise three agents in one branch office relating to the sale of certain structured products issued by Lehman Brothers to two investors and that such conduct formed a basis to sanction the Firm under Section 305 (A)(VII) of the Pennsylvania Securities Act of 1972, 70 P.S. Section 1-305(A)(VII)	Consent to the Commission's Findings of Fact, Conclusion of Law, and Order.	Administrative Assessment of \$200,000  Legal and investigation costs of \$75,000
2	Sept. 30, 2011	FINRA	FINRA alleged that during the period of November 2004 to September 2006, the Firm violated Municipal Securities Rulemaking Board Rule G-27 by failing to reasonably supervise certain cross-trading of municipal bonds by retail customers, in that the Firm lacked adequate policies and procedures to monitor this type of trading and did not conduct adequate follow-up on red flags which put it on notice that one of its registered representatives may have been exercising discretion in customer accounts to engage in unsuitable cross-trading of municipal bonds.	Acceptance, Waiver and Consent	Censure and Monetary Fine: \$300,000
3	August 22, 2011	New Hampshire Bureau of Securities Regulation	UBS sold Lehman Structured Products to clients (specifically referencing three particular investors), who were not made aware of the risks of these products and failed to inform clients of Lehman's financial condition prior to Lehman's bankruptcy. It was also alleged that the firm's recommendations to a small number of New Hampshire residents to purchase Lehman Structured Products were unsuitable.	Consent Order	Administrative fine of \$100,000  Investigation costs of \$200,000  Administrative payment of \$700,000

	<b>Date of Action</b>	<b>Brought By</b>	<b>Allegation</b>	<b>Disposition</b>	<b>Monetary Sanctions</b>
4	May 4, 2011	SEC, Internal Revenue Service (IRS), Dept. of Justice (DOJ), State Attorney General of 24 States	UBS AG and UBS Financial Services Inc. reached settlements with the SEC, the IRS, the DOJ and a group of State Attorneys General regarding investigations into the conduct of certain former employees in UBS Financial Services' former municipal reinvestment and derivatives group from 2001 to 2006. Allegations included violations of: Section 15(c)(1)(A) of the Securities Exchange Act of 1934, Section 1 of the Sherman Act, and IRS regulations in bidding practices and representations made involving the investment of proceeds of municipal securities transactions.	SEC: Waiver and Consent to Final Judgment enjoining UBS from violating Section 15(c) of the Act, disgorgement of profits, interest and civil penalty  IRS: Closing Agreement  DOJ: Non-prosecution Agreement	SEC: Disgorgement of \$9,606,543 plus interest of \$5,100,637 and civil penalty of \$32,500,000  IRS: penalty of \$18 million and restitution of 4.3 million  States: \$70.8 million plus \$20 million credited from the SEC settlement
5	April 11, 2011	FINRA	Violations of NASD Rules 2110, 2010, 2210, 2211, 2310, 3010 and IM2310-2 with regard to Lehman Brothers Holdings Inc. 100% Principal Protection Notes ("Notes"): violated NASD Rule 2110 by making statements and omitting certain facts through communications through some financial advisors that may have misled certain customers, failed to disseminate adequately to financial advisors certain market information relating to Lehman's financial condition, violated NASD Rules 3010 and 2110 by failing to maintain and establish adequate supervisory systems in connection with marketing and sale of the Notes, violated NASD Rules 2310 and 2110 and IM-2310-2 by not adequately analyzing the suitability of sales to certain customers, and use of advertising and marketing materials and training and education materials that were not fair and balanced in violation of Rules 2210(d)(1) (A) and (B), 2211 and 2110.	Letter of Acceptance Waiver & Consent.  Censure, Fine, and Restitution to specific classes of customers	Fine: \$2.5 million Restitution: \$8.5 Million
6	Jan. 5, 2011	FINRA	From October 1, 2007 through December 31, 2007, the Firm failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to five of its customers was as favorable as possible under prevailing market conditions.	AWC Censure, Fine	Monetary/Fine: \$30,000 Disgorgement/Restitution



	<b>Date of Action</b>	<b>Brought By</b>	<b>Allegation</b>	<b>Disposition</b>	<b>Monetary Sanctions</b>
7	January 2011	SIX Swiss Exchange Regulation	UBS AG was fined for (i) publishing too late internally available information related to expected losses in the summer of 2007 and (2) breaching rules on the provision of information about corporate governance in the 2008 UBS annual report.	Fine`	CHF100,000
8	Nov. 3, 2010	FINRA	Violation of NASD Rules 1021, 1031, 2110 and 3010, FINRA Rule 2010 by permitting 70 individuals to act as principals without registration, and inadequate supervisory procedures.	Letter of Acceptance, Waiver & Consent.  Censure, Fine. Establish supervisory procedures.	Fine: \$200,000 Test of Supervisory procedures with written report within 120 days and certification of supervisory changes and written report within 90 days
9	Sept. 29, 2010	FINRA	Violation of NASD Rules 2110, 3010(a) and 3010(b), FINRA Rule 2010 by lending customer securities to facilitate short selling without disclosing certain facts to customers and failing to adequately supervise.	Letter of Acceptance, Waiver & Consent, Censure, Fine, Establish supervisory procedures	Fine: \$175,000
10	June 26, 2009	FINRA	Inadequate systems/procedures, to detect patterns of unsuitable short-term trading of Closed-End Funds.	Letter of Acceptance, Waiver & Consent, Censure & Fine	Fine: \$100,000
11	February 2009	SEC and US Department of Justice	UBS entered into a Deferred Prosecution Agreement with the D.O.J. and a Consent Order with the SEC in connection with an investigation into the firms Cross-Border business. UBS AG agreed to disgorge profits and pay back taxes. UBS AG will terminate cross-border business serving private clients out on non SEC registered entities.	Disgorgement (\$200,000,000 is to the SEC) Back Taxes Payment	\$380,000,000  \$400,000,000
12	Feb. 26, 2009	FINRA	Violated NASD Rules 2110, 3010, 2320, 3110, 3360, 3370, 6130, 6955(A) by failing to find the best inter-dealer market, did not obtain a favorable price, did not mark short-sales as such, did not note delivery instructions. The supervisory procedures were not adequate to achieve compliance.	Letter of Acceptance, Waiver & Consent, Censure and Fine Restitution to customer and revision of firm procedures	Fine: \$110,000 Restitution: \$2,719.65
13	Jan. 9, 2009	CFTC	UBS FA violated Sections 6(c) and 6(d) of Commodities Exchange Act and did not file with the National Futures Association the commodity pools' annual reports in a timely manner or deliver to pool participants.	Cease & Desist from violating Regulation 4.7(b)(3)(i) and CFR 4.7(b)(3)(i)(2008) and pay a civil penalty	Civil Penalty: \$50,000

	<b>Date of Action</b>	<b>Brought By</b>	<b>Allegation</b>	<b>Disposition</b>	<b>Monetary Sanctions</b>
14	December 2008	Swiss Federal Banking Commission	The cross-border business of UBS AG private clients was investigated and the firm was required to cease operating its non-W9 relationships, and to establish an adequate risk management and control system for this business.	Injunction	None
15	Dec. 22, 2008	SEC and the 50 states	Auction Rate Securities (ARS): UBS is permanently enjoined from violations of the broker/dealer anti-fraud provisions. Violations of '34 Act Section 15(c) regarding the marketing and sale of Auction Rate Securities.	Cease & Desist Injunction Civil Penalty Consent Judgment	Cease & Desist, and Fines in varying amounts currently being paid to all 50 states out of a total fine of \$75 million
16	Feb. 28, 2008	FINRA	UBS effected transactions in Mutual Fund shares where other share classes were advantageous, or within the NAV transfer program, Failure to maintain supervisory procedures designed to identify NAV Programs.	Letter of Acceptance, Waiver & Consent, Censure and Fine. Firm to undertake initiative to provide remediation to certain customers who purchased Class B or C shares or who did not receive benefit of the NAV transfer program.	Fine: \$1,000,000
17	Dec. 3, 2007	State of Missouri	Firm failed to supervise former FA's for public seminars and recommendations to customers re: mutual fund share sales.	Consent Order, Censure, Fine & Disgorgement	Civil : \$ 75,000 Investor Restitution: \$247,680 Disgorge: \$135,946 Investor Education: \$230,000 Cost to Investigate: \$8,584
18	Oct. 24, 2007	FINRA	Firm did not file certain amendments to U-4's and U-5's during the period 1.1.02 to 12.31.04 and did not have adequate supervisory procedures re: late filings.	Letter of Acceptance Waiver & Consent & Fine	Fine: \$370,000
19	Oct. 2, 2007	FINRA	Violated NYSE Rule 401(a) and 342 by failing to deliver prospectuses and failing to maintain supervisory and control procedures.	Letter of Acceptance, Waiver & Consent, Censure & Fine Certification to NYSE re: policy & procedure revisions within 90 days.	Fine: \$500,000
20	July 16, 2007	Attorney General State of NY	Non-discretionary fee-based brokerage accounts were unsuitable for certain clients and fees/commissions were higher than non-fee based accounts	Remediation to Customers & Penalty to State of NY	Remediation: \$21,300,000 Penalty: \$2,000,000

	<b>Date of Action</b>	<b>Brought By</b>	<b>Allegation</b>	<b>Disposition</b>	<b>Monetary Sanctions</b>
21	April 16, 2007	State of Connecticut Department of Banking	Failure to keep certain books & records pertaining to sub-account transfers with insurance products & failure to supervise agents re: market timing.	Fine, Financial Literacy Initiatives, Education Initiatives	Fine: \$1,500,000 Public School Initiative: \$1,250,000 Public College Initiative: \$1,000,000 Dept of Social Service Initiative : \$1,500,000 CT Law Enforcement: \$250,000
22	May 26, 2006	NYSE	Sales Practice exams in 2003 and 2004 revealed overcharges and the Firm violated Section 17(a)(2) of the '33 Act, and Rule 10b-10 of the '34 Act.	Stipulation of Facts & Consent to Penalty	Fine: \$175,000
23	Jan. 11, 2006	NYSE	Failure to supervise brokers who engaged in deceptive market timing of mutual funds and varied insurance products.	Fine, Consent Order, Censure, Civil Penalty	Fine: \$23,700,000 Fine State of NJ: \$24,700,000
24	March 7, 2005	State of Illinois	Failure to provide investors with accurate information re: callable CD's and failure to supervise.	Fine	Fine: \$95,000
25	June 28, 2004	NASD	Violation of MSRB Rules G-17 and G-30, unfair pricing of bond sales.	Censure & Fine	Fine: \$100,000
26	Dec. 10, 2003	Secretary of State of 47 States and Washington D.C.	Violation of Securities Act regulations regarding research practices and conflicts of interest arising from those practices.	Cease & Desist, Fine, Penalty, Disgorgement, Investor Education	Disgorgement: \$25,000,000 Procurement: \$25,000,000 Education: \$5,000,000  Fines varied by State
27	August 2003	SEC	Failure to supervise former RR who committed fraud and caused extensive client losses.	Consented to an Order Instituting Proceedings, Censure under '34 Act Section 15(b), Civil Penalties	Civil: \$500,000
28	June 29, 2003	NYSE	Failure to provide investors with accurate information re: callable CD's and failure to supervise.	Censure & Fine	Fine: \$174,000

## Item 10. Other Financial Industry Activities and Affiliations

UBS Financial Services Inc. is a member of all principal securities and commodities exchanges in the United States including the New York Stock Exchange ("NYSE"). Our parent company, UBS AG ("UBS"), is a global, integrated investment services firm and one of the world's leading banks. We are registered to act as a broker-dealer, investment adviser and a futures commission merchant. Please note that registration as an investment adviser does not imply a certain level of skill or training.

As a full service broker-dealer and investment adviser, we offer our customers and investment Advisory clients a broad range of financial services and products, and we are engaged in various aspects of the securities and investment business. Our financial services include:

- Underwriting securities offerings
- Acting as a market maker in securities
- Trading for our own account
- Acting as a clearing firm for other broker-dealers
- Buying or selling securities, commodity futures contracts and other financial instruments for customers as their broker or buying them from or selling them to clients, acting as principal for our own account
- Providing investment advice and managing investment accounts or portfolios
- Acting as a commodity pool operator, futures commission merchant or commodity trading advisor and providing custodial services
- Through our affiliates, we provide clients with trust and custodial services
- We manage, sponsor and distribute registered investment companies and other public and private pooled investment vehicles, including hedge funds, whose shares or other interests are sold to clients

Currently, our principal business, in terms of its revenues and personnel, is that of a broker-dealer in securities.

### UBS Financial Services Inc. Subsidiaries & Other Affiliates

There are a number of related persons that provide investment management and other financial services and products to our investment advisory clients, which may be material to our advisory business.

UBS, our subsidiaries or affiliates act in one or more capacities, including investment adviser, sub-adviser, consultant, administrator and principal underwriter (as applicable) to a number of open-end and closed-end investment companies with varying investment objectives. As a futures commission merchant, and through affiliates registered as commodity pool operators and commodity trading advisors, we or an affiliate also provide advice on commodities and commodity-related products. Certain of our subsidiaries, affiliates and related entities include the following:

- Sydling Futures Management LLC.
- UBS Financial Services Insurance Agency Inc.
- UBS Financial Services Inc. of Puerto Rico, a separately registered broker-dealer
- UBS Insurance Agency of Puerto Rico Inc.
- UBS International Hong Kong Limited
- Trust-related services are available through the UBS Trust Company N.A. and the UBS Trust Company of Puerto Rico.
- UBS Credit Corp. provides loans to clients that are either unsecured or secured by securities or other financial instruments. These loans may be used to buy securities or for other purposes. These loans are not subject to the maintenance requirements and potential capital charges that are imposed on broker-dealers.
- UBS Bank USA is an FDIC-insured Utah industrial bank. UBS Bank USA provides deposit services and loans to clients that are secured by securities or real estate. These loans may be used for purposes other than buying, trading or carrying securities. These loans are not subject to the maintenance requirements and potential capital charges that are imposed on broker-dealers.

UBS AG (UBS Financial Services Inc.'s ultimate parent) offers investment advisory services through a variety of direct and indirect subsidiaries. These entities are separately registered investment advisors and, in some cases, registered broker-dealers and commodity-trading advisors. Their principal lines of business range from developing and distributing investment products including wrap fee products, mutual funds, closed-end funds, privately placed funds and other pooled investment products, providing investment advice to individuals, pension and other employee benefit plans, other tax-exempt organizations, insurance companies, investment companies, commingled trust funds, corporations, and other institutional investors,

and serving as investment managers, administrators, distributors and/or placement agents for a number of funds, including (in the case of UBS Global Asset Management (US) Inc., the PACE Select Advisors Trust and a number of UBS and UBS Global Asset Management-advised mutual funds. Certain of the investment advisers listed below may serve as investment manager for clients participating in our MAC, ACCESS program or SWP programs.

The UBS AG subsidiaries registered as investment advisers in the United States include the entities below. These companies manage the assets of, or serve as general partners or managers of registered investment companies and private investment funds that may be offered and sold to our advisory clients. Information on those investment vehicles can be found on the respective Form ADV of each affiliated advisor.

- Alternative Investment Solutions
- UBS Agrivest LLC
- UBS Global Asset Management (Americas) Inc.
- UBS O'Connor LLC
- UBS Realty Investors LLC
- UBS Securities LLC
- UBS Swiss Financial Advisers
- UBS Fund Advisor, LLC
- UBS Juniper Management LLC
- UBS Tamarack Management LLC
- UBS Eucalyptus Management LLC, and
- UBS Willow-Management LLC.

## **Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics**

The Firm maintains and enforces a written code of ethics in accordance with Rule 204A-1 under the Investment Advisers Act of 1940. The code and any subsequent amendments, is provided to all employees of the Firm and each employee is responsible for acknowledging receipt.

The code, which supplements the Firm's code of conduct, has a dual purpose:

- To set forth standards of conduct that apply to all employees of the firm, including the firm's fiduciary obligation to its clients
- To address conflicts of interest associated with the personal trading activities of a subset of employees defined as "access persons."<sup>3</sup>

Employees are required to promptly report any suspected violation of the code. Violations of the code may result in discipline, up to and including termination. Clients or prospective clients may obtain a copy of the Investment Adviser Code of Ethics upon request.

### **B. Participation or Interest in Client Transactions**

#### **1. Principal transactions and agency cross trades**

We may enter into principal transactions for some investment Advisory clients after making appropriate disclosure and obtaining client consent when necessary. In accordance with the provisions of Section 11(a) of the Securities Exchange Act of 1934, we may execute transactions on the floors of national or regional securities exchanges for managed client accounts where appropriate. For MAC accounts, we may execute transactions in our capacity as broker-dealer on a routine basis, as agent or principal, and may charge commissions or mark-ups and mark-downs as appropriate, unless we or one of our affiliates is acting as investment manager.

Additionally, if appropriate client consent is obtained and required disclosure is made, agency cross transactions may be effected for customer accounts to the extent permitted by law. Agency cross transactions are transactions in which we or our affiliates act as broker for the party or parties on both sides of the transactions. In these circumstances, we will receive compensation from parties on both sides of these transactions (the amount of which may vary) and, consequently, we will have a potentially conflicting division of loyalties and responsibilities. Your consent to "agency cross" transactions may be revoked at any time by written notice to us. For MAC accounts, we may execute "agency cross" transactions on a routine basis, consistent with best execution, unless we or one of our affiliates is acting as investment manager.

<sup>3</sup> Access Person: all branch office employees, regardless of their job function, and any other Firm employee who works from a branch location or home office employees who place trades on behalf of money managers who participate in the Firm's advisory programs and home office employees that develop, manage or place trades for the UBS Managed Portfolio Program.

## **Advice/Services to Other Clients and Activities in our Proprietary Accounts**

We and our affiliates provide investment banking, research, brokerage, investment advisory and other services for different types of clients, and may give advice to or take actions for those clients, or for our own accounts for those of our affiliates that differs from advice given to, or the timing and nature of actions taken for you. We and our affiliates may buy and sell securities for our own or other accounts, or we may act as a market maker or an underwriter for securities recommended, purchased or sold. UBS and our affiliates occasionally may not be free to divulge or act upon certain information in their possession on behalf of investment advisory or other clients. We are not obligated to execute any transaction for your account that we believe to be improper under applicable law or rules or contrary to our own policies. In particular, you should note that some of our programs may recommend asset allocations or analyze markets and the economy in a different way than would be recommended by some of our research, trading or other departments.

We have adopted policies and procedures that limit transactions for our proprietary accounts and the accounts of our employees. These policies and procedures are designed to prevent, among other things, improper or abusive conduct when there may be a potential conflict with the interests of a client.

## **Trading Activity**

The vast majority of our exchange-listed securities and over-the-counter (OTC) orders are executed through our affiliate, UBS Securities LLC—which executes orders as either principal or as agent, depending on the circumstances and type of program involved. *See the section Trading and Execution Practices—Execution of Transactions for your Account* for more information.

## **Trade Errors**

We have a trade error procedure, pursuant to which we resolve trading errors that may occur from time to time. We require the appropriate supervisory personnel to review and approve the correction. The correction must be processed on a timely basis and may not adversely affect a client, with very minor exceptions. The firm maintains an error account to facilitate handling trading errors. Gains may be offset by losses in the error account. At the end of the calendar year, gains in the error account will be kept by the Firm. If an outside investment adviser causes a trade error, the outside investment adviser's trade error procedure will govern, unless it conflicts with our internal procedure.

## **2. Additional Sources of Compensation from SMA Managers or Vendors Whose Products We May Recommend to Our Advisory Clients**

- **Contributions to Training and Education Expenses.** Investment managers, mutual fund vendors, unit investment trust sponsors, annuity, life insurance companies or their affiliates and sponsors of ETFs whose products are available on our platform may contribute funds to support our Financial Advisor education programs.
- The contributions are used to subsidize the cost of training seminars we offer to Financial Advisors through specialized firm-wide programs and regional training forums. These seminars are designed to provide training and education to Financial Advisors, Branch Office Managers, Field Leadership, and other personnel who regularly solicit clients to participate in the various types of businesses listed above. These contributions also subsidize a portion of the costs incurred to support the Financial Advisor training, Financial Advisor and Client education, and product marketing efforts conducted regionally and nationally by product specialists employed by UBS.

Not all vendors contribute to our education efforts. Neither contribution towards these training and educational expenses, nor lack thereof, is considered as a factor in analyzing or determining whether a vendor should be included or should remain in our programs or our platform. Contributions can vary by vendor and event. Some vendors may decide to contribute at levels different than those we request. Additional contributions may be made by certain vendors in connection with specialized events or training forums.

Your Financial Advisor does not receive a portion of these payments.

## **– Directed brokerage compensation from managers available in our advisory programs**

Financial Advisors who recommend or, otherwise solicit the hiring of investment managers in our Advisory Programs, including but not limited to, ACCESS, MAC, and SWP programs are generally prohibited from receiving any directed commission income or other transaction revenue from any investment manager who is also employed in any of their ACCESS, MAC, or SWP, account relationships. However, the firm and other Financial Advisors may execute securities transactions directed to us by affiliated and unaffiliated investment

managers for other clients. These transactions and the compensation we receive may not be pursuant to any specific oral or written arrangement between us and any of the affiliated and unaffiliated investment managers.

### **3. Additional Sources of Compensation in Connection with Investments in Advisory Accounts**

UBS, our Financial Advisors and affiliates receive additional compensation in connection with certain types of assets in which your advisory accounts may be invested. This compensation is in addition to the Program Fee you pay us for our investment advisory services. Instead, this compensation is a result of distribution, shareholder servicing, administration, marketing, investment management, revenue sharing or referral agreements we and/or affiliates have with vendors or sponsors of those securities and other services. We also receive additional compensation as a result of inter-company profit sharing and servicing agreements. For certain alternative investments, the compensation may also include performance fees. The nature of the services provided by, and the compensation paid to, us and our affiliates are described in the offering documents for the respective products, which are available for no charge through your Financial Advisor. Certain securities, for example, mutual funds are sold by prospectus only. Please read the prospectus carefully before investing.

**Not all advisory programs permit the purchase and sale of domestic mutual funds, offshore funds, unit investment trusts, or alternative investments. Please review the eligibility of investments in your advisory program with your Financial Advisor for more details.**

The amount of fees paid to us, and therefore your Financial Advisors, may vary depending on the arrangement between us and the vendors/sponsors and, if applicable for mutual funds, and the terms and conditions of the relevant fund's 12b-1 or trailing commission plan. If you hold these assets in your advisory accounts, we receive these payments for the duration of your advisory program agreement. In some circumstances, our receipt of such compensation may extend beyond your participation of our advisory programs if you continue to hold those assets at our firm.

As a result of the various payments to us or our affiliated companies, the amount of compensation that UBS entities receive with respect to the sale of affiliated or proprietary mutual funds, including the money market funds used as sweep vehicles in advisory accounts, is greater than the amount payable to the organization as a whole from the sale of unaffiliated mutual funds.

For UBS proprietary products, our affiliates receive fees for providing investment management and other services ancillary to the execution of purchases of shares in affiliated funds, including, administration and shareholder services to the affiliated funds in the Programs.

Unless otherwise noted, we receive the payments described below for affiliated and non-affiliated products.



## Domestic Mutual Funds

Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
Trailers & 12b-1 Fees	<ul style="list-style-type: none"> <li>– Affiliated funds: 0.25% of the fund's assets per year.</li> <li>– Non-affiliated funds: Fees generally range from 0% to 0.50% per year—although the average current annual rate is approximately 0.25%.</li> </ul>	<p>Investors/Shareholders pay these fees to the sponsors of the Funds.</p> <p>We receive these payments from the sponsors for distribution and shareholder services we provide in connection with the purchase and sale of mutual fund shares.</p>	Yes
Networking Fees	<ul style="list-style-type: none"> <li>– Typically \$12-\$15 for each mutual fund position that is held at UBS. Some fund companies may choose to calculate this rate expressed in basis points on assets. Exclusions may apply to positions below \$500.</li> </ul>	<p>These fees are paid by mutual fund sponsors from investor assets, but in some cases may be subsidized, in part, by affiliates of the mutual fund.</p> <p>Networking fees are paid in consideration for services provided by us ancillary to effecting mutual fund transactions including transmission of shareholder data between UBS and the fund companies.</p>	No
Omnibus Processing Fees	<ul style="list-style-type: none"> <li>– These payments, which usually range from \$16 to \$22 per position are assessed per client and can vary by share class. Some fund companies may choose to calculate this rate expressed in basis points on assets. Exclusions may apply to positions below an asset level mutually agreed upon by UBS and the fund company. A portion of the payments we receive for Omnibus processing is paid to the sub-account transfer agent.</li> </ul>	<p>These fees are paid by mutual fund sponsors from investor assets.</p> <p>Omnibus fees are paid in consideration for sub-accounting services we provide.</p> <p>A portion of this fee is paid to the transfer agent.</p>	No

## Domestic Mutual Funds

Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
UBS Global Asset Management Y Shares	<p>Prior to June 16, 2010 (and, for certain funds May 25, 2010), UBS Global AM (US), the principal underwriter of the funds, made the following payments out of its own resources:</p> <ul style="list-style-type: none"> <li>– a one-time finder's fee consistent with the fund's Class A share.</li> <li>– Beginning in the 13th month after purchase, an annual fee in an amount up to (1) 20 basis points for an equity fund, an asset allocation fund or a balanced fund; (2) 15 basis points for a fixed-income fund; and (3) 5 basis points for an index fund.</li> </ul> <p>These payments are not available for purchases of Y shares after June 16, 2010 (or, May 25, 2010, as applicable), but continue to be made for investments prior to that date.</p>	UBS Global Asset Management (US) pays these fees out of its resources.	Yes
Account Services Fees For Affiliated Funds	The amount of such fees may vary depending on the fund, but generally average \$12 per account per year, billed quarterly.	Fees are paid by the fund sponsor out of investor assets.	No
Revenue Sharing Payments	(see below for details)	Fees are paid by the fund sponsor or investment adviser out of their legitimate profits and resources.	No

**Mutual Fund Revenue-sharing compensation.** The revenue-sharing information below is current as of the date of this brochure and is subject to change in our discretion. Updated and current information on these arrangements is available at our website, [www.ubs.com/mutualfundrevenuesharing](http://www.ubs.com/mutualfundrevenuesharing).

**Generally, we receive revenue sharing compensation in connection with all mutual fund assets in Program Accounts except for assets held by:**

- **Qualified Plans and IRA clients in our Discretionary Programs (UBS Managed Portfolio Program and PMP) and in PACE Select.**
- **Clients whose accounts are custodied at other financial institutions.**
- **PACE Money Market Fund assets in the PACE Multi Program.**

**Revenue sharing compensation will not be rebated or credited to you. However, to the extent we receive revenue sharing compensation for Qualified Plans and IRAs assets in our Discretionary Programs or PACE Select, that compensation will be rebated to Plan and IRA clients.**

In addition to sales loads, 12b-1 fees and processing fees, UBS receives other compensation from certain distributors or advisors of mutual funds that we sell. These separate compensation amounts (commonly referred to as revenue sharing) may be a negotiated flat fee or may be based on two components:

- The amount of sales by UBS of a particular mutual fund family to our clients (excluding sales through wrap-fee programs)
- The asset value of a particular mutual fund family's shares held by our clients at UBS.

We require that these payments be made directly from the distributor or advisor, and not from the mutual funds or indirectly through mutual fund portfolio trading commissions, because revenue-sharing payments are intended to compensate us for assisting with the sales of mutual fund shares. **Except as noted below, none of these amounts are rebated to you or paid to the Financial Advisor or his or her branch office.**

Many mutual funds companies pay revenue-sharing to us, including our affiliate, UBS Global Asset Management. UBS determines the level of access to our branches based on our own review and evaluation of mutual funds and fund families. There are multiple factors involved in determining a particular mutual fund's level of access to our branches. Although revenue sharing may be one factor, others include understanding of business goals, quality of sales personnel and marketing material, range of products, level of service to Financial Advisors and Branch Managers, participation of funds in researched investment models, and branch discretion.

In general, we charge each mutual fund family up to the following amounts:

- Up to 0.15% per year (paid quarterly) on all sales of mutual fund shares (excluding sales through wrap-fee programs)
- Up to 0.20% per year (paid quarterly) of the asset value of all equity mutual fund shares held at UBS
- Up to 0.20% per year (paid quarterly) of the asset value of all fixed-income mutual fund shares held at UBS (other than money market, institutional or offshore funds)
- Some mutual fund families may be subject to a minimum annual payment which, in some instances, may result in a fee that exceeds the percentages described above.

Except as noted below, and for the Multi-Select Securities Puerto Rico Fund, which does not pay revenue-sharing to us, this calculation includes shares of affiliated and non-affiliated funds in our wrap-fee programs, but does not include UBS PACE Money Market investments or mutual fund assets held at other financial institutions. Further, we may institute caps at certain asset and sales levels, as well as comprehensive caps, and may exclude certain mutual fund shares from the above calculations. And although we seek to apply a level, standard payment schedule for all of the mutual fund companies whose funds we sell, we recognize that mutual fund companies approach revenue sharing in a variety of ways, and that some mutual fund companies may decline to pay revenue sharing exactly at the levels listed above or at all, which may present a financial disincentive for us to promote the sale of those funds that do not pay us at the levels listed above.

Revenue-sharing payments may present a conflict between our interests and those of our customers, because the payments give us a financial incentive to recommend that our customers buy and hold shares of those funds that we maintain on our distribution platform and for which we receive revenue-sharing payments. Although mutual funds from over 250 different mutual fund families are available through our distribution platform, this is only part of the universe of mutual funds that are available to our customers in the marketplace. Certain "no load" and "institutional" mutual fund shares may be purchased by our customers at a charge of \$75 per transaction, plus other customary sales charges.

Offshore Funds

Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
Trail Commissions	<div><div>– Equity offshore funds: ranges from 50 to 90 basis points.</div><div>– Fixed income offshore funds: 25 to 60 basis points.</div></div> <div>Please ask your Financial Advisor for our fee schedule that shows the specific trail commissions that are paid to your Financial Advisor as these amounts are typically not clearly disclosed in the offering materials of offshore funds.</div>	Asset-based fees typically paid by the distributor or advisor of the offshore fund.	Yes
Revenue Sharing	<div>Not all offshore funds pay revenue sharing.</div> <div>Affiliated Offshore Funds: We do not receive revenue sharing compensation.</div> <div>Unaffiliated Offshore Funds: When revenue-sharing compensation is paid, we receive an amount that ranges from 0.10% to 0.50% per annum of the average daily net asset value of the fund attributable to the shares owned by our clients, during each month. Alternately, this could be paid as a percentage of the fund’s stated management fees and could be up to 65% of these fees.</div>	Revenue-sharing compensation is made directly from the distributor or advisor, and not from the offshore funds or indirectly through fund portfolio trading commissions because revenue-sharing compensation is intended to compensate us for ancillary services related to the sales of offshore fund shares.	No

Alternative Investment Funds

Payment Type	Current Rate	Source of Payment	Do Financial Advisors Receive a Portion of These Fees?
<ul style="list-style-type: none"><li>– Referral Fees</li><li>– Distribution Fees</li><li>– Management Fees</li><li>– Administrative Fees</li><li>– Performance (incentive-based fees)</li></ul>	<p><b>Proprietary Funds:</b></p> <p>SWP Program: The funds that were previously offered in the SWP program are managed or administered by an affiliate. The management/administrative fees range between 1.25 and 1.75 bps. Our affiliate pays us approximately 90 pbs for distribution of these funds. These payments are shared with your Financial Advisor.</p> <p>The management/administration fee paid to our affiliate may be waived in their entirety for certain classes of investors (for example, ERISA plans investing through an advisory program).</p> <p>Master/Feeder funds: UBSFS may receive a one-time service fee of 50 bps from the sponsor of a fund into which a proprietary feeder fund invests.</p> <p>Placement Fees: of up to 2% from its clients.</p> <p><b>Non-Proprietary Funds:</b></p> <p>UBSFS receives a trail or service fee ranging between 15 to 125 bps of the assets of UBSFS investors in the non-proprietary funds. Financial advisors receive compensation of up to 90 bps.</p> <p>Incentive Fees: UBSFS may receive a portion of the incentive allocation of up to 2.5%.</p> <p>Placement Fees: UBSFS receives a fee of up to 2% from its clients.</p> <p>Referrals: UBSFS may refer a client to a third party manager for investment into one of the manager's funds for a negotiable referral fee.</p>	<p>These fees are usually paid by the fund sponsor out of investor assets. The management, administrative, distribution and performance based fees are paid by investors/shareholders of the funds to the sponsor/adviser.</p>	<p>Yes.</p>

**Unit Investment Trusts.** Most UIT sponsors make additional payments to the firms that sell their UITs, including UBS. These payments are typically calculated as a percentage of the total volume of sales of the sponsor's UITs made by the firm during the UIT's initial offering period. That percentage typically increases as higher sales volume levels are achieved. Detailed descriptions of the terms of these additional payment programs are provided in a UIT's prospectus. UIT sponsors may also pay UBS fixed amounts for marketing, promotional or related expenses intended to result in additional sales of a sponsor's products, or to defray a portion of the costs incurred to facilitate UIT sales, such as the costs of developing or purchasing UIT trading systems. Payment rates and total payment amounts vary from sponsor to sponsor. These payments are made by the UIT sponsor and not out of UIT assets. None of these amounts are paid to the Financial Advisor or his or her branch office.

For "private label UITs" (UITs only offered to UBS clients), the sponsor may pay UBS an additional concession within a reasonable time following the initial offering period. This additional payment generally ranges from to 0.10% to 0.40% of the public offering price per unit sold by UBS during the initial offering period, excluding units sold to Fee Accounts subject to a Wrap Fee.

#### **Multi-Select Puerto Rico Fund.**

The seven portfolios of the Multi-Select Securities Puerto Rico Fund are available in certain Advisory Programs (non-retirement accounts) to residents of Puerto Rico. The Multi-Select Securities Puerto Rico Fund is an open-end fund registered under the Puerto Rico Investment Companies Act. The Fund pays trailers and 12b-1 fees at the rate of 0.25% of the fund's assets per year, which are shared with your Financial Advisor.

UBS Asset Managers of Puerto Rico, a Division of UBS Trust Company of Puerto Rico will invest a portion of each portfolio (excluding the ETF portfolio) by opening accounts in the ACCESS Program. Detailed information about the fund and the portfolios, including the current annual rates of investment management fees and administrative fees paid to us or our affiliate are described in the fund's prospectus.

Our affiliate, UBS Trust Company of Puerto Rico, receives fees for providing investment management, administration and shareholder servicing to the Multi-Select Securities Puerto Rico Fund, and other funds that

may be available to Puerto Rico residents in the Advisory Programs in the future.

#### **Affiliated Money Market Funds Available as Sweep Vehicles in Advisory Accounts.**

**Domestic Money Market Funds.** Effective March 1, 2011, UBS Financial Services Inc. transferred its investment advisory and administration contracts for the money market funds offered as sweep vehicles in our Advisory Programs to UBS Global Asset Management.

Our affiliate, UBS Global Asset Management, now serves as advisor, administrator and principal underwriter for the money market funds used as sweep vehicles in Program accounts.<sup>4</sup> Under the terms of our agreement with UBS Global Asset Management, we will receive service or 12b-1 fees related to these funds (except UBS Cashfund) as well as revenue sharing payments from UBS Global Asset Management related to these funds. Service or 12b-1 fees for these funds are paid at an annual rate of up to 0.15% of the fund's average daily net assets. Revenue sharing payments related to these funds are paid to us out of the legitimate profits of UBS Global Asset Management and may be up to annual rate of up to 0.42% of the fund's average daily net assets. **Your Financial Advisor receives a portion of the service fees paid to us in connection with these money market funds. Your Financial Advisor does not receive a portion of the revenue sharing payments paid to us in connection with these money market funds.**

**UBS Bank Deposit Program:** We receive an annual fee of up to \$25 from the Bank for each UBS account that sweeps into Deposit Accounts at the Bank, to the extent permitted by law.

#### **International accounts: International Deposit Account (IDA)**

Cash held in your Program Account is automatically swept into a demand deposit account at the New York Branch of UBS AG (UBS NY), from which the cash is then swept and re-deposited each business day into an interest-bearing overnight deposit account (i.e., the IDA) at UBS Cayman. The cash swept from the UBS NY account becomes payable only at the UBS Cayman account, and not at the UBS NY account, and, as a result, is temporarily exposed to the sovereign risk of the Cayman Islands. **Funds on deposit in the accounts at UBS NY and UBS Cayman are not eligible**

<sup>4</sup> UBS RMA Money Market Portfolio, UBS RMA U.S. Government Portfolio, UBS Retirement Money Fund, UBS RMA California Municipal Money Fund, UBS RMA New York Municipal Money Fund, UBS RMA Tax-Free Fund and UBS Cashfund.



**for federal deposit insurance from the Federal Deposit Insurance Corporation (FDIC).** UBS Cayman earns revenue from cash swept into the IDA, which is greater than the interest you receive on your cash. The difference between the rate that UBS Cayman earns on your cash and what you receive is shared between UBS AG and UBS. Your Financial Advisor receives a share of UBS' portion of such excess revenue. For more detailed information on the IDA for NRA clients, please see the **International Deposit Account Sweep Program Disclosure Statement** given to you with the documentation for your program account.

#### **Sweep vehicle for Puerto Rico residents.**

The Puerto Rico Short Term Investment Fund is available as a sweep option only for customers who hold accounts with UBS Financial Services Inc. of Puerto Rico and who are Puerto Rico residents. UBS Asset Managers of Puerto Rico, a Division of UBS Trust Company of Puerto Rico, serves as investment advisor to the fund and receives management fees of 0.500%. UBS Trust Company of Puerto Rico also acts as administrator, transfer agent and custodian to the fund and receives fees for those services, which are included in the fund's other expenses and estimated at 0.219%. UBS Trust Company of Puerto Rico is an affiliate of UBS Financial Services Inc.

In addition, distribution and/or service (12b-1) fees of 0.125% are deducted from the fund's assets and a portion may be paid to Financial Advisors in connection with their sale of fund shares.

#### **Non-cash compensation**

In addition to the revenue-sharing payments described above, we and our Financial Advisors, may, from time to time, receive non-cash compensation from mutual fund companies, investment managers, insurance vendors, and sponsors of products that we distribute. This compensation may include the following:

- Occasional gifts
- Occasional meals, tickets or other entertainment
- Sponsorship support of training events for our employees
- Various forms of marketing support

#### **Other compensation**

In addition, our affiliates receive trading commissions and other compensation from mutual funds and insurance companies whose products we distribute.

UBS or our affiliates may engage in a variety of transactions with (or provide other services to) the

investment managers, mutual funds, their affiliates or service providers with which you are doing business. We may, in turn, receive compensation from these entities. Those transactions and services that we provide may include:

- Executing transactions in securities or other instruments
- Broker-dealer services for our own account
- Research services
- Consulting services
- Performance evaluation services
- Investment banking services
- Banking or insurance services

#### **4. Margin and Lending**

You may choose to engage in leverage strategies involving the assets in your eligible non-retirement, non-custodial accounts. Margin is generally not recommended or permitted in advisory accounts. However, we may from time to time, approve margin on an exception basis when requested by a client or for use in specialized strategies available in our advisory programs. You may also use certain managed account assets to collateralize margin lending in your brokerage account or non-purpose loans referred to as credit line loans below. Certain accounts in Strategic Advisor may use margin upon request.

You must meet certain eligibility requirements and complete loan documentation prior to using margin in your advisory account or applying for a UBS Credit Line Loan. Specifically, you will be required to execute a separate margin agreement with us or loan documents with UBS Bank USA.

**Margin.** Using margin in an Advisory Account or using the advisory assets as collateral for margin used in another account is a more aggressive, higher risk approach to pursuing your investment objectives. Before you decide to use margin in your managed account or to use such assets as collateral for margin, you must carefully consider:

- whether or not you can afford, and want, to assume the additional risks that losses in your account may be significantly greater than if you decide not to invest with borrowed funds (i.e., not to use leverage).
- that the use of leverage will increase your costs of investing, as well as your risks, and depending upon the return achieved through the use of margin, may make your investment objectives more difficult to realize.

- If we provide a margin loan to you, you will pay us interest on the outstanding loan balance. Since the wrap fee is calculated as a percentage of assets under management, the use of margin to purchase securities in a managed account generally will increase the amount of (but not the percentage of) the wrap fee that you pay to us. This will result in additional compensation to us, the Financial Advisor and your selected investment manager.

**The decision to use leverage in a managed account or use those assets as collateral rests with you and should only be made if you understand:**

- the risks of margin borrowing and the impact of the use of borrowed funds on a managed account
- how the use of margin may affect your ability to achieve investment objectives.
- **You may lose more than your original investment.**
- Also, a positive or negative performance of a margined managed account, net of interest charges and other account fees, will be magnified by virtue of using borrowed money. As a result, gains or losses in a leveraged managed account will be greater than would be the case with an unleveraged managed account.
- **You may not benefit from using margin in an Advisory Account if the performance of your account does not exceed the interest expense being charged on the loan plus the additional advisory account fees incurred by your account as a result of the deposit of the loan proceeds.**

**Credit Lines.** You also may apply to borrow money from our affiliate, UBS Bank USA, using an eligible securities account. These eligible securities accounts may include one or more of your advisory accounts, which may be used as collateral pursuant to the UBS Credit Line Program. The proceeds of this loan may not be used to purchase, trade or carry securities or to repay debt (a) used to purchase, trade or carry securities or (b) to any affiliate of UBS Bank USA. In order for an advisory account to be eligible to serve as collateral for the Premier Variable Credit Line, Premier Fixed Credit Line or Prime Credit Line products, the Advisory Account cannot serve as collateral for any margin lending.

As a result, if you wish to collateralize a credit line loan with an Advisory Account, we will automatically discontinue the margin for that Account. Since your Advisory Account will be pledged to support any loans extended under the UBS Credit Line Program, you will not be permitted to withdraw any of the assets in the Account unless there is a sufficient amount of collateral

otherwise supporting the loans (as determined by UBS Bank USA in its sole discretion).

If you participate in the UBS Credit Line Program, you will pay interest to UBS Bank USA in addition to any Advisory Account Program Fees charged. We and your Financial Advisor will receive additional compensation as a result of your participation in the UBS Credit Line Program.

**Defaults**

- **Margin Accounts:** Margin loans are demand loans and clients with margin accounts may need to deposit additional cash or collateral or repay part or all of the margin loan if the value of the portfolio declines below the required loan-to-value ratio. We may demand repayment at any time.
- **Credit Lines:** Likewise, Credit Line Loans extended under the UBS Credit Line Program are demand loans and are subject to collateral maintenance requirements. UBS Bank USA may demand repayment at any time. If the required collateral value is not maintained, UBS Bank USA can require you to post additional collateral, repay part or all of your loan and/or sell your securities.

Failure to promptly meet a request for additional collateral or repayment or other circumstances (e.g., a rapidly declining market) could cause us, in the case of margin loans, or our affiliate, in the case of credit lines, and in our discretion, to liquidate or instruct us to liquidate some or all of the collateral account or accounts to meet the margin loan or credit line requirements. Depending on market circumstances, the prices obtained for the securities may be less than favorable. Any required liquidations may interrupt your long-term investment strategies and may result in adverse tax consequences. UBS and our affiliates do not provide legal or tax advice. You should consult your legal and tax advisors regarding the legal and tax implications of margin borrowing and using securities as collateral for a loan.

**Neither UBS, our affiliates nor our Financial Advisors will act as investment adviser to you with respect to the liquidation of securities held in an advisory account to meet a margin call or credit line loan demand. In addition, as creditors, we and our affiliate may have interests that are adverse to you. Additional limitations and availability may vary by state. Those liquidations will be executed in our capacity as broker-dealer and creditor and may, as permitted by law, result in executions on a principal basis in your Account.**

**There are substantial risks associated with the use of borrowed funds for investment purpose and securities as collateral for a loan. For further information, please see the UBS Financial Services Inc.. Loan Disclosure Statement, which is available from your Financial Advisor.**

## Item 12. Personal Trading

The Investment Advisers Act of 1940 imposes a fiduciary duty on portfolio managers to always act in the best interests of clients and to put their clients' interests ahead of their own. With respect to trading in a Financial Advisor's own account or one over which he/she has control or a beneficial interest (a Control Account\*), there is a potential conflict of interest in situations where Financial Advisors buy or sell securities for their own accounts as well as the accounts of their clients.

To ensure that both the PMP Portfolio Managers and UBS Financial Services Inc. avoid any potential conflicts with respect to personal trading, we have a Personal Trading Policy for Control Accounts.

Generally, when a security is bought or sold in a PMP account, that security may not be bought or sold in the PMP Financial Advisor's Control Account(s) during a defined timeframe.

The Personal Trading Policy applies to trades in an advisor's Control Account unless the Control Account participates in PMP and is traded in a block transaction receiving an average price along with other PMP client accounts.

All members of the Portfolio Strategy Group are Covered Employees and adhere to the Firm's Confidential Information Policy Procedures. With regards to personal trades, members of the Portfolio Strategy Group must pre-clear certain trades (i.e. individual equity and ETF transactions) with the Pre-Trade Supervisor. The Pre-Trade Supervisor reviews the request to ensure that the security in the potential transaction was not added to or deleted from the Managed Portfolios within two business days before the employee's request. In addition, the Pre-Trade supervisor will review that the pre-cleared transaction was not added to or deleted from the Managed Portfolios within two business days after the employee's personal transaction. If an employee's transaction is found to have violated this policy, the employee is instructed to have the transaction reversed.

## Item 13. Review of Accounts

We have various policies and procedures applicable to the review and supervision of client accounts in our investment advisory programs. Those policies are designed to comply with the requirements of the Investment Advisers Act of 1940, and where applicable, ERISA and other applicable rules and regulations.

There are general policies applicable to all advisory accounts as well as individually tailored guidelines for each of the wrap fee programs described in this brochure. Because the Programs offer different services and have different features, the guidelines for supervision vary by Program.

Accounts are reviewed periodically (usually, quarterly), although certain guidelines for specific Programs are reviewed daily (for example, principal trades and trading errors). Items generally reviewed include, but are not limited to the following (as applicable given program features and services):

- consistency of the client's investment profile with, their selection of SMA Managers in ACCESS, asset allocation plans in PACE, SWP and Strategic Advisor, and investment strategies managed by our Portfolio Managers in PMP, the Mutual Fund Discretionary Program and the Managed Portfolio Program;
- levels of security and cash concentration;
- compliance with principal trade restrictions where those trades are not permitted;
- compliance with principal trade requirements for Programs which offer principal trade execution;
- levels of unsolicited trading in Strategic Advisor;
- trading activity in the PMP program;
- Review of performance and style drift of researched SMA Managers.

Branch Office Managers are responsible for the supervision and review of these accounts, while home office Program Managers are responsible for enforcing the various program guidelines. Reports are generated either by the Program Management team or automatically through our systems, and provided to Financial Advisors and Branch Office Managers for follow-up. These reports are for internal use and are not provided to clients. If the report item is not remedied within a pre-determined period of time, the accounts may be terminated from the Programs or other action taken to bring the account back into compliance with Program guidelines or document an exception to the guidelines.

Clients in the advisory programs receive monthly account statements and quarterly performance reports for their accounts. Clients in the Strategic Advisor program receive an annual written review of their account which identifies shifts in the asset allocation.

#### **Item 14. Client Referrals and Other Compensation**

- Arrangements with Affiliates: We have referral agreements with our affiliates that outline:
  - how we refer clients to them
  - how they refer clients to us
  - how we act as solicitor for their advisory services and/or wrap fee programs
  - how we refer clients to them for services other than advisory services.
- In certain cases, the advisory and consulting services available in our Programs may be provided by Financial Advisors registered with companies affiliated with us through a solicitation agreement with us or we may serve as a clearing broker for those affiliated entities.

Under those agreements, we share fees with or receive fees from our affiliates for the referral or solicitation of clients or for services provided to clients. These payments may vary, depending on the type of agreement, product or the nature and extent of the services provided, and may continue as long as the client account is maintained with UBS or our affiliate or for an agreed upon period. Arrangements may also be based on a percentage of revenue received.

- Third Party Arrangements: We also have a referral program that allows UBS to enter into solicitation arrangements with third parties that we compensate for referring or soliciting clients to participate in our Advisory or trust services programs. Solicitors receive a portion of the advisory fees we receive.
- We also have solicitation arrangements under which either we and/or our Financial Advisor may receive compensation for referring clients to a third party who will provide investment Advisory or other services to the client. The compensation we receive is usually a portion of the advisory fee the third party receives from its clients. In certain circumstances we may also receive commission revenue for transactions those third parties execute through our firm.

It is our practice to disclose to the client being referred the terms of the arrangement, including the maximum

compensation payable to us and/or our Financial Advisors or a third party, as the case may be.

We and our affiliates also have arrangements with some third party investment managers under which we and/or certain of our Financial Advisors provide research (within the meaning of Section 28(e) of the Securities Exchange Act of 1934), and in return, the investment manager places brokerage transactions with us for execution, subject to best execution practices and requirements. The research services provided generally may be in the form of written reports or telephone contacts or personal meetings with security analysts, economists, or meetings hosted by our Financial Advisors with corporate or industry spokespersons. UBS or our Financial Advisors also may recommend or refer clients to third-party investment managers that place brokerage transactions with us. The differences in the form or amount of compensation paid to us by different investment managers for client referrals or research products create a conflict between our interests and the interests of the clients referred because of the incentive to make referrals to those investment managers that offer us greater compensation than others.

#### **Referral arrangements for financing business**

We have certain agreements whereby we refer our customers to certain lenders, on a non-exclusive basis, for specific financing opportunities not available at UBS or its affiliates. These lenders may be able to assist clients in securing financing for specialized borrowing needs. It is our practice to disclose to the client being referred the roles of UBS and the lender in connection with such referral and that we receive a referral fee from the lender. Upon the successful completion of a transaction, the lender will pay us a referral fee, which will vary depending upon the lender and/or the amount of the financing. A portion of the fee we receive is paid to the Financial Advisor.

#### **Item 15. Financial Information**

UBS Financial Services, Inc. is a qualified custodian (as defined in SEC Rule 206(4)-2. As a result, we have not included the balance sheet required under the "Financial Information" of this Form ADV.

- As of the date of this Brochure, there is no financial condition that is reasonably likely to impair our ability to meet our contractual commitment to our clients.
- Our Firm has not been the subject of a bankruptcy petition at any time during the last ten years.



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